



Legislation Details (With Text)

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Type: City Resolution **Status:** Passed
File created: 6/24/2003 **In control:** Meeting of the Oakland City Council
On agenda: 7/15/2003 **Final action:** 7/15/2003
Title: Subject: Debt Management and Debt Affordability
From: Financial Services Agency
Recommendation: Adopt the following legislation regarding Fiscal Year 2003-2004 Debt Management and Debt Affordability policies:

- 1) Adopt a Resolution adopting the City of Oakland Fiscal Year 2003-2004 Financial Policies with respect to Debt Management and Debt Affordability;

Sponsors:

Indexes:

Code sections:

Attachments: 1. 77964 CMS.pdf

Date	Ver.	Action By	Action	Result
7/15/2003	1	Meeting of the Oakland City Council	Adopted	Pass
6/24/2003	1	*Concurrent Meeting of the Redevelopment Agency and Finance and Management Committee	Approved as Amended the Recommendation of Staff, and Forward	Pass

Subject: Debt Management and Debt Affordability
From: Financial Services Agency
Recommendation: Adopt the following legislation regarding Fiscal Year 2003-2004 Debt Management and Debt Affordability policies:

- 1) Adopt a Resolution adopting the City of Oakland Fiscal Year 2003-2004 Financial Policies with respect to Debt Management and Debt Affordability;
CITY OF OAKLAND -1, C@

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A GEADA REPORT

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TO: Office of the City Manager
ATTN: Robert C. Bobb
FROM: Financial Services Agency
DATE: June 24. 2003
RE: A REPORT AND ACCOMPANYING RESOLUTION ON THE CITY'S FINANCIAL POLICIES ON DEBT MANAGEMENT AND DEBT AFFORDABILITY

SUMMARY

This report is a follow-up to the February 18, 2003) Agenda Report entitled "Information Report on the City's Financial Policies". That report discussed the general recommendations of the Team 4A of Moving Oakland Forward regarding the adoption of a Mt set of financial policies and a regular process for monitoring, reporting on compliance, and updating those policies. This report specifically addresses the following recommendations:

- Debt Management Policy: Adopt a debt management policy (attached), which would provide guidance to the City Council and to City staff by identifying the parameters for issuing debt and for managing the City's debt portfolio.
- Debt Affordability Study (or Debt Capacity Study): Annually adopt a debt capacity study (attached), identifying limits for total annual debt service payments with relation to the City's budget, so as to ensure that any new debt issued is affordable and cost-effective.

This report also contains a resolution for Council approval to reflect these policies. It is recommended that these policies be adopted during the FY 2004-2005 budget process.

FISCAL IMPACTS

This report discusses the implementation of a Debt Management Policy and Debt Affordability Study. There are no immediate fiscal impacts; however, the implementation of these policies will assist the City and Agency to minimize borrowing costs in the future due to the financial market's favorable outlook on such policies.

BACKGROUND

Team 4A of Moving Oakland Forward developed a set of policy recommendations to achieve specific financial management and budgetary goals. The recommendations are intended to guide the creation, maintenance and use of resources for decisions affecting the issuance of debt. In developing these recommendations, Team 4A studied the Government Finance Officers Association's Recommended Practices for State and Local Governments, as well as several cities' debt policies.

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Debt Management - The foundation of any well-managed debt program is a comprehensive debt management policy (or "debt policy"). A debt policy sets forth the parameters for issuing debt and managing the debt portfolio and provides guidance to the City Council. The debt policy should recognize a long-term commitment to full and timely repayment of all debt as key to the successful entry into the capital markets.

Debt Affordability - A comprehensive and routine analysis of debt capacity (or "debt I -

affordability") provides assurance that the amount of debt issued by the City is affordable to the taxpayer and cost-effective. By analyzing debt capacity and establishing appropriate limits on debt issuance, the City will be better able to keep debt at affordable levels.

KEY ISSUES AND IMPACTS

Debt Management Policy

Absent a formal debt management policy, the City has in practice followed many of the elements which staff recommends, such as:

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 outlines debt capacity guidelines or targets which are consistent with ranges established by the rating agencies.

Standards for Use of Debt Financing - Debt financing will be promoted when public policy, equity and economic efficiency favor debt over pay-as-you-go financing.

Financing Criteria - Whenever issuing long- or short-term debt, the City will determine the most appropriate structure, the mode (fixed or variable), and the use of synthetic fixed or floating rate debt. These decisions will be made within the context of already existing obligations.

Terms and Conditions of Bonds - In the issuance of its bonds, the City should 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.

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.

Refinancing Outstanding Debt - A minimum savings threshold of 3% or \$500,000 (whichever is smaller) in present value savings is established except when there are legal reasons for defeasance.

Methods of Issuance - A preferred sale method (negotiated or competitive) will be determined for each issuance of bonds.

Underwriter Selection - Both senior manager(s) and co-manager(s) will be selected on the basis of firm and staff qualifications, and experience with structures similar to the proposed issuance.

Page 3)

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 Rule 15c2-12 by the timely filing of its annual financial statements and other financial and operating data for the benefit of its bondholders.

Consultants - Consultants, including financial advisors and bond counsel, will be solicited based upon firm and staff qualifications, and experience with structures similar to what is being proposed.

Impact - In the credit rating process, the rating agencies believe it is appropriate to place significant value on debt policies that have been implemented by cities. Sound financial management practices that include a debt policy will not only be viewed positively by the rating agencies but may lead to rating upgrades. Higher ratings will lead to lower borrowing costs to the City in the form of lower interest rates.

Debt Affordability Study

Information was collected from the three major rating agencies - Moody's Investor Service, Standard & Poor's, and Fitch - and from the Government Finance Officers Association's Recommended Practices for State and Local Governments. According to the rating agencies, debt burden is defined as debt service principal and interest as a percentage of operating expenditures. Offsetting revenues may be taken into account in this calculation. In general, debt burden is defined within the following categories:

Low Debt Burden <5 percent

Moderate Debt Burden 5-15 percent

High Debt Burden > 15 percent

For Fiscal Year 02-03 the City's debt burden is 14.55 percent.

It is difficult to arrive at an ideal debt burden as ratios are only a portion of the data that rating agencies use in their analysis. Economic, administrative, structural, or subjective factors may outweigh any impact of the debt burden ratio when a rating is assigned. In general, a low or moderate debt burden is preferable to a high debt burden as a factor toward minimizing the City's financing costs.

It is recommended that the City undertake an analysis of its debt capacity on an annual basis and prior to each issuance of bonds. The analysis of debt capacity should cover a broad range of factors such as:

Statutory or constitutional limitations affecting the amount that can be issued, such as legally authorized debt limits, and tax or expenditure ceilings

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Other legal limitations, such as coverage requirements or additional bonds tests imposed by bond covenants

Evaluation of trends relating to the City's financial performance, such as revenues and expenditures, and unreserved fund balance levels

Debt service obligations, such as existing debt service requirements, and debt service as a percentage of expenditures

Measures of debt burden on the community, such as debt per capita, debt as a percentage of assessed property value, and overlapping debt

Tax-exempt market factors affecting interest costs, such as interest rates, market receptivity, and credit rating

Impact - enhancing the quality of financing decisions through an analysis of debt capacity

rationalizes the decision-making process, identifies objectives for staff to implement, and demonstrates a commitment to long-term financial planning objectives. Furthermore, performing a debt capacity analysis is viewed positively by the rating agencies and may contribute to lowered financing/interest costs.

SUSTAINABLE OPPORTUNITIES

Adoption of this report on financial policies will not impact economic, environmental or social equity opportunities.

DISABILITY AND SENIOR CITIZEN ACCESS

There is no impact to disability or senior citizen access following actions under this report.

RECOMMENDATIONS AND RATIONALE

Staff recommends that the City Council formally adopt the proposed financial policies. When adopted, copies of these policies should be maintained at the City Clerk's Office and at the office of the Finance and Management Agency, and be posted on the City's official website, www.oaklandnet.com.

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ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council approve the accompanying Resolution adopting the Debt Management Policy and an annual Debt Affordability Study.

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Respectfully submitted,

DEBOkAH EDGERL@
Director, Financial Services Agency

Prepared by:

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Joseph T. Yew, Jr.
Treasury Manager

APPROVED AND FORWARDED TO THE
FINANCE AND MANAGEMENT COMMITTEE

OFFICE OF THE CITY MANAGER

Item
ORA/Council
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APPROVED AS TO FORR AND @.EGALITY

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OAKLAND CITY COUNCIL

RESOLUTION NO. C. M. S.

RESOLUTION ADOPTING THE CITY OF OAKLAND FISCAL YEAR 2003-2004
FINANCIAL POLICIES WITH RESPECT TO DEBT MANAGEMENT AND DEBT
AFFORDABILITY

WHEREAS, an annual 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 would be beneficial to the City; and

WHEREAS, an annual debt affordability study will identify affordability or capacity targets which are established by the rating agencies (Moody's Investor Service, Standard & Poor's, and Fitch) to ensure that any new debt issued by the City is cost-effective and affordable would be beneficial to the City; and

WHEREAS, proposed financial policies on debt management and debt affordability are set forth below, to be effective for the 2003-2004 fiscal year and until subsequent policies are adopted; and

WHEREAS, the Council has conducted a public meeting to consider the proposed financial policies;

NOW THEREFORE BE IT RESOLVED, as follows:

Section 1. Debt Management Polic . The Debt Management Policy of the City for fiscal year 2003-2004, in substantially the form on file with the City Clerk, is

hereby approved and adopted, with such changes, additions, amendments or modifications as are approved by the City Manager, in consultation with the City

Attorney.

Section 2. Debt Affordability Policy. The Debt Affordability Policy of the City for fiscal year 2003-2004, in substantially the form on file with the City Clerk, is hereby approved and adopted, with such changes, additions, amendments or modifications as are approved by the City Manager, in consultation with the City Attorney.

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ORA/Council
July 15,2003

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Section 3. Effect. This Resolution shall take effect immediately upon its passage.

IN COUNCIL, OAKLAND, CALIFORNIA, '2003

PASSED BY THE FOLLOWING VOTE:

AYE& - PRESIDENT DE LA FUENTE, BROOKS, BRUNNER, CHANG, NADEL, QUAN, REID,
AND WAN

NOES-

ABSENT-

ABSTENTION -

ATTEST:

CEDA FLOYD

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

Item
ORA/Council
July 15, 2003

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APPROVED AS TO FORM AND LEGAL
INTRODUCED BY AGENCY MEMBER F
OFFICE D - 'AZ;UJtYCOUNSEL

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OF THE CITY OF OAKLAND
RESOLUTION NO. C.M.S.

RESOLUTION ADOPTING THE OAKLAND REDEVELOPMENT AGENCY'S FISCAL
YEAR 2003-2004 FINANCIAL POLICIES WITH RESPECT TO DEBT MANAGEMENT
AND DEBT AFFORDABILITY

WHEREAS, an annual debt management policy which provides guidance to
Oakland Redevelopment Agency (the "Agency") staff and the Board of the Agency by
identifying parameters for issuing debt and for managing the Agency's debt portfolio
would be beneficial to the Agency; and

WHEREAS, an annual debt affordability study will identify affordability or capacity
targets which are established by the rating agencies (Moody's Investor Service,
Standard & Poor's, and Fitch) to ensure that any new debt issued by the Agency is cost-
effective and affordable would be beneficial to the Agency; and

WHEREAS, proposed financial policies on debt management and debt
affordability are set forth below, to be effective for the 2003-2004 fiscal year and until
subsequent policies are adopted; and

WHEREAS, the Board of the Agency has conducted a public meeting to consider
the proposed financial policies;

NOW THEREFORE BE IT RESOLVED, as follows:

Section 1. Debt Management Policy. The Debt Management Policy of the
Agency for fiscal year 2003-2004, in substantially the form on file with the Secretary of
the Agency, is hereby approved and adopted, with such changes, additions,
amendments or modifications as are approved by the Agency Administrator, in
consultation with Agency Counsel.

Section 2. Debt Affordability Policy. The Debt Affordability Policy of the
Agency for fiscal year 2003-2004, in substantially the form on file with the Secretary of
the Agency, is hereby approved and adopted, with such changes, additions,
amendments or modifications as are approved by the Agency Administrator, in
consultation with Agency Counsel.

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july 15, 2003

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Section 3. Effect. This Resolution shall take effect immediately upon its passage.

IN AGENCY, OAKLAND, CALIFORNIA, 2003

PASSED BY THE FOLLOWING VOTE:

AYES: - PRESIDENT DE LA FUENTE, BROOKS, BRUNNER, CHANG, NADEL, QUAN, REID, AND WAN

NOES-

ABSENT-

ABSTENTION -

ATTEST:

CEDA FLOYD

Secretary of the Agency and Clerk of the Council of the City of Oakland, California

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ORA/Council
July 15, 2003

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Proposed A-mendments to Debt Management Policy

Under rI. F. 1. (page 3)

A presentation of the City's debt capacity shall be made to the City Council with the
II
proposed approval of any debt, lease financing or other instruments of installment
repayments with maturities longer than three years.

Under III.A. (page 4)

The City will consider the debt capacity in determining the use of debt financing.

Under W.A. I. (page 5)

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

Under V.G. (page 7)

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.

Under LK. For selection of Under-writer

Delete second paragraph on page iii and last sentence on page 12.
Delete XII.B. second sentence of the first paragraph on page 15

Add XH.G.

Financing Team Selection Process

The City shall conduct a request for qualifications from all red-book firms and other potential candidates in the San Francisco and Oakland Metropolitan areas every budget cycle to establish pools of qualified underwriters, financial advisors, bond counsel and other consultants for each of the following areas:

- General Obligation Bonds, assessment bonds and other bond issuances based on voter-approval revenues;
- Redevelopment tax-increment bonds (including low and moderate income housing);
- Revenue bonds, lease financing and other obligations on existing City revenues.

The City shall select at least three qualified applicants for each pool category, subject to the approval of the City Council. The City shall utilize the services of qualified

applicants in the pool on a rotational basis for any issue of debt, lease-financing or debt instrument having an aggregated principal amount of less than \$50,000,000.

For any issue of debt, lease-financing or debt instrument having an aggregated principal amount of \$50,000,000 or more, the City shall select underwriter(s) and financing advisor for that issue through the issuance of a request for proposal from all red-book firms and other potential candidates.

Debt Management Policy
Fiscal Year 2002 - 2003

City of Oakland

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July 15,2003

City of Oakland
Fiscal Year 2002/2003 A12hk Executive Summary

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CITY OF OAKLAND

Executive Summary of Debt Management Policy

1. Goals and Objectives. In implementing a formal debt management policy, the City's goal is to maintain long-term financial flexibility while ensuring that the City's capital needs are adequately supported.

II. 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 designates affordability or capacity targets which are established by the rating agencies (Moody's Investor Service, Standard & Poor's, and Fitch). Debt capacity is defined as annual debt service payments as a percentage of operating expenditures and debt service payments. Below are the debt capacity ranges:

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

The City's debt capacity for the Fiscal Year ended June 30, 2003 was 14.55%. The debt capacity ratio must be calculated each year. The additional issuance of \$180M in debt will increase the City's capacity to 15%.

The additional issuance of \$180 million in debt would increase the City's debt capacity to 15%.

A separate Debt Affordability Study will be presented annually with the Debt Management Policy.

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 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 structure, the mode (fixed or variable), and the possible use of

synthetic fixed or floating rate debt. 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 in present value savings is utilized except when there are legal 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 Tax and Revenue Anticipation Notes will be issued on a competitive basis.

IX. Underwriter Selection. Both senior managers and co-managers will be selected on the basis of firm and staff qualifications, and experience with structures similar to the proposed issuance. Selling groups may be considered for certain transactions. All parties are subject to post-evaluation of performance.

Request for Proposals (RFP) or Request of Qualifications (RFQ) will be used to determine the selection and appointment of the senior managers and co-managers on the debt issuances. For debt issuances of \$1 million or less, the Director of the Finance and Management Agency shall appoint senior managers and co-managers without the use of an RFP or RFQ.

X. 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 Rule 15c2-12 by the timely filing of its annual financial statements and other financial and operating data for the benefit of its bondholders.

Xi. Consultants. An RFP or an RFQ will be used to determine the selection and appointment of Consultants, such as financial advisors. The selection of the firm(s) shall be based upon firm and staff qualifications, and experience with debt structures similar to what is being proposed. Consultants will be required to provide complete disclosure regarding any agreements with other financing team members and outside parties.

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City of Oakland
Debt Policy

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CITY OF OAKLAND

Debt Policy

1. Introduction

So as to maintain the highest quality debt management program possible, the City of Oakland ("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 supported by the City's general fund and any other related entities. Debt issuance for related entities should be evaluated on an individual basis as well as within the context of the City's general debt management program. The Debt

Management Policy is not applicable to intra-City borrowing.

Goals and Objectives

The Debt Management Policy formally establishes parameters for issuing debt and managing a debt portfolio which encompass 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 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:

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

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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
- assure access to credit markets, and
- preserve financial flexibility

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 at least once annually. In addition to capital project costs, the Capital Plan shall include the

following elements:

- I. Qualified capital projects
2. Description of all sources of funds
3. Availability of current revenues (non-debt sources) which are reflected in the City's multi-year forecast
4. Timing of capital projects
5. 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 Director of the Finance and Management Agency and Budget Director that discusses the impact of the proposed borrowing on the Capital Plan. The Capital Plan is reviewed and presented to the City Council at least once annually.

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C. Qualified Capital Projects. Generally, the City will not issue bonds for 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

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City of Oakland
Fiscal Year 2002/2003 Adalke Debt Policy

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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 Debt Capacity - The City's approach to its financings is to ensure continued market access at the lowest cost of borrowing. As such, the Debt Policy suggests

affordability or capacity targets which are established by the rating agencies (Moody's Investor Service, Standard & Poor's, and Fitch). Debt capacity is defined as debt service payments as a percentage of operating expenditures and debt service payments. Below are the debt capacity ranges:

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

The City's debt capacity for the Fiscal Year ended June 30, 2003) is 14.55%. The debt capacity ratio must be calculated each year. The additional issuance of \$180 million in debt will increase the City's capacity to 15%.

A separate Debt Affordability Study will be presented annually with the Debt Management Policy.

2. 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.

3. Overlapping Debt (including debt from all other jurisdictions, which tax City taxpayers) will be taken into consideration in planning debt issuance.

G. Credit Quality. All City debt management activities will be conducted to receive the highest credit ratings possible for each issue, consistent with the City's financing objectives, and to maintain the current credit ratings assigned to the City's debt by the major credit rating agencies.

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City of Oakland
Fiscal Year 2002/2003 After Debt Policy

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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.

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1 Debt Capacity - The City's approach to its financings is to ensure continued market access at the lowest cost of borrowing. As such, the Debt Policy suggests affordability or capacity targets which are established by the rating agencies (Moody's Investor Service, Standard & Poor's, and Fitch). Debt capacity is defined as debt service payments as a percentage of operating expenditures and debt service payments. Below are the debt capacity ranges:

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

The City's debt capacity for the Fiscal Year ended June 30, 2003 is 14.55%. The debt capacity ratio must be calculated each year. The additional issuance of \$175 million in debt will increase the City's capacity to 15%.

A separate Debt Affordability Study will be presented annually with the Debt Management Policy.

2. 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.

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G. Credit Quality. All City debt management activities will be conducted to receive the highest credit ratings possible for each issue, consistent with the City's financing objectives, and to maintain the current credit ratings assigned to the City's debt by the major credit rating agencies.

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Fiscal Year 2002/2003 902hk Debt Policy

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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-VOLI-p) financing. Whenever possible, the debt shall be self-supporting.

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.

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 Division. 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 Division will maintain all available documentation for outstanding debt and will develop a standard procedure for archiving transcripts for any new debt.

E. 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.

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City of Oakland
Fiscal Year 2002/2003 Debt Policy

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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.

I. Long-Term Debt. The City may issue long-term debt (e.g., general obligation bonds, 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.

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 consistent with a finding by bond counsel that the sizing of the issue fully conforms to Federal IRS requirements and limitations.

c) Lines of Credit 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.

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City of Oakland
Fiscal Year 2002/2003 Debt Policy

4. Variable Rate Debt. To maintain a predictable debt service burden, the City may 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 variable rate debt in certain instances, such as:

- a) High Interest Rate Environment. Current interest rates are above historic average trends.
- 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) Finance and Management Agency Analysis. The Finance and Management Agency will provide to the Finance and Management Committee an analysis evaluating and quantifying the risks and returns involved in the variable rate financing and recommending variable rate as the lowest cost option.
- e) 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.
- f) 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 not exceed 20% of the City's total outstanding debt.

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.

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B. Capitalized Interest. Certain types of financings such as certificates of participation and lease-secured financings will 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 lawfully 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 existing debt service.

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. The City will consider the use of derivative structures as a hedge against future interest rate risk when appropriate. 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 10 or more basis points, and is able to reasonably quantify and understand potential risks.

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.

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V1. 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 Director of the Finance and Management Agency or his/her 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 Director or his/her 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, a reserve fund equal to 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. The Director of the Finance and Management Agency or his/her designee shall prepare (or cause to be prepared) and distribute to qualified financial institutions as described in paragraph 2 below, a request for qualifications 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, and short-term ratings of VMIG I A- I F I, by

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Moody's Investors Service, Standard & Poor's and Fitch Inc., 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

V11. Refinancing Outstanding Debt

The Treasury Manager shall have the responsibility to analyze outstanding bond issues for refunding opportunities that may be presented by underwriting and/or financial advisory firms. The Treasury Manager 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 of the refunded bond principal amount or at least \$500,000 in present value savings (including foregone interest earnings) unless there are legal reasons for defeasance. 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 Manager or the Director of the Finance and Management Agency.

B. Restructuring. The City will refund debt when in its best interest to do so. Refundings will 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.

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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 Financial advisor sell escrow securities to the City from its own account.

E. Arbitrage. 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.

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

B. Negotiated Sale. 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@

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

IX. Underwriter Selection

Senior Manager Selection. The Director of the Finance and Management Agency and/or his/her designee shall recommend to the City Manager the selection of a senior manager for a proposed negotiated sale. Request for Proposals (RFP) or Request of Qualifications (RFQ) will be used to determine the selection and appointment of the senior managers and co-managers on the debt issuances. For debt issuances of \$10 million or less, the Director of the Finance and Management Agency shall appoint senior managers and co-managers without the use of a RFP or RFQ.

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A. The criteria for selection as reflected in the RFP or R.FQ shall include but not be limited to the following:

1. The firm's ability and experience in managing complex transactions
2. Prior knowledge and experience with the City
3. The firm's willingness to risk capital and demonstration Of Such risk
4. The firm's ability to sell bonds
5. Quality and experience of personnel assigned to the City's engagement
6. 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 Director of Finance and Management Agency and/or the Treasury Manager 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 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.

E. Disclosure Counsel. In any negotiated sale of City debt in which legal counsel is required to represent the City. the appointment will be made by the City Attorney's Office.

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F. Underwriter's Discount.

a) The Director of the Finance and Management Agency or his/her designee will evaluate the proposed underwriter's discount against comparable issues in the market. If there are multiple underwriters in the transaction, the Director will determine the allocation of fees with respect to the management fee. The determination will be based upon participation in the structuring phase of the transaction.

b) 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 Treasury Manager. The senior manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated.

G. Evaluation of Financing Team Performance. The City 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.

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Following each sale, the Treasury Manager shall provide a post-sale evaluation to the Director of the Finance and Management Agency on the results of the sale.

H. Syndicate Policies. For each negotiated transaction, syndicate policies will be prepared that will describe the designation policies governing the upcoming sale. The Treasury Manager or Financial 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:

- 1 . Equitably allocate bonds to other managers and the selling group
2. Comply with MSRB regulations governing the priority of orders and allocations
3. Within 10 working days after the sale date, submit to the Director of the Finance and Management Agency or Treasury Manager a detail of orders, allocations and other relevant information pertaining to the City's sale

X. Market Relationships

A. Rating Agencies and Investors. The City Manager, the Director of the Finance and Management Agency, and the Treasury Manager shall be responsible for maintaining the City's relationships with Moody's Investors Service, Standard & Poor's and Fitch Inc. 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 Manager, the Director of Finance and Management Agency and the Treasury Manager shall: (1) meet with credit analysts at least once each fiscal year, and (2) prior to each competitive or negotiated sale, offer conference calls with agency analysts in connection with the planned sale.

B. City Council Communication. The City Manager shall include in an annual report to the City Council feedback from rating agencies and/or investors regarding the City's financial strengths and weaknesses and recommendations for addressing any weaknesses.

C. 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 270 days 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 Treasury Manager will ensure the City's timely filing with each Nationally Recognized Municipal Securities Information Repository.

D. 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 Treasury Manager shall ensure that proceeds and investments are tracked in a manner which facilitates accurate calculation, that calculations are completed, and rebates, if any, are made in a timely manner.

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E. 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 Director of the Finance and Management Agency and the Treasury Manager will ensure that the highest quality financings are done and that the City is insulated from all risks. The City shall require that all conduit financings achieve a rating at least equal to the City's ratings or that credit enhancement is obtained.

Xi. 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.

x11. Consultants

The City shall select its primary consultant(s) by competitive process through a Request for Proposals (RFP).

A. Selection of Financing Team Members. The City Manager and/or the Director of the Finance and Management Agency will make recommendations for financial advisors and underwriters. Final approval will be provided by the City Council.

The City Attorney will make recommendations for bond and tax counsel. Final approval will be provided by the City Council.

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B. Financial Advisor. A pool of financial advisors will be created to assist the City in its debt issuance and debt administration processes. The term of the pool will be three (3) years. Selection of the City's financial advisor(s) shall be based on, but not limited to, the following criteria:

1. Experience in providing consulting services to complex issuers
2. Knowledge and experience in structuring and analyzing complex issues
3. Experience and reputation of assigned personnel
4. Fees and expenses

C. Financial Advisory Services. Financial advisory services provided to the City shall include, but shall not be limited to the following:

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- I. 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 paving agent services, printing, credit facilities, remarketing agent services, etc.)
6. Advice, assistance and preparation for presentations with rating agencies and investors

D. Conflicts of Interest. The City also expects that its financial 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.

E. Bond Counsel. 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 constitution 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 counsel will be selected by the City Attorney's Office. Compensation will be based on a fixed fee schedule and will vary based on the complexity of the transaction.

F. 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.

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Glossary

Arbitrage. The difference between the interest paid on the tax-exempt securities and the interest earned by investing the security 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). A bond from an issue, which is secured by lease payments made by the party leasing the facilities, financed by the issue. Typically certificates of participation ("COPs") 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 under-writers 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.

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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 'Aich 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.

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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 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 who participate in an offering not as underwriters but rather 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, which is attributable to the increase in assessed valuation since adoption of the project area plan.

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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.

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City of Oakland
Fiscal Year 2002-2003

Direct Debt Outstanding
(in thousands)
City of Oakland Debt
Principal FY 02-03
Outstanding Debt Service

General Obligation Debt

1991A General Obligation Bonds, Series 1991A 415 428
1992 General Obligation Bonds, Series 1992 38,705 3.544
1995B General Obligation Bonds, Series 1995B 12,800 1.205
1997 General Obligation Bonds, Series 1997 41,440 3.375
1997C General Obligation Bonds, Series 1997C 20,400 1,658
2000D General Obligation Bonds, Series 2000D 10,535 767
2000E General Obligation Bonds, Series 2000E 9,000 439
2002A General Obligation Bonds, Series 2002A 28,880
Subtotal 162,175 11.416

Pension Obligation Bonds

1997A&B Taxable Pension Obligation Bonds, Series 1997 A & B 249,175 24.488
2001 Taxable Pension Obligation Bonds, Series 2001 195.636
Subtotal 444.811 24,488

Lease Revenue Bonds and Certificates of Participation

1985 Civic Improvement Corporation Variable Rate Demand COP. 1985 39,500 3.149
1992 Refunding Certificates of Participation (Oakland Museum), 1992 Series A 9,518 2.746
1996 Oakland Joint Powers Financing Authority Lease Revenue Bonds, Series 1996 1 00.350 7.550
1998A-1 & A-2 Oakland Joint Powers Financing Auth. Lease Rev. Refunding, 1998 Series A-1 & A-2 171.000
16.150
2001 Oakland Joint Powers Financing Auth Lease Rev. Refunding Bonds, Series 2001 128.325 11,969
2002 City of Oakland, Refunding COP (Oakland Museum). 2002 Series A 16.295 799
Subtotal 464,988 42.364

Oakland-Alameda County Coliseum Authority (50% City share)

1995A Fixed Rate Refunding Lease Revenue Bonds, Oakland Coliseum Project 1.248 670
199(i) Variable Rate Lease Revenue Bonds (Taxable), Oakland Coliseum Arena Project 65.350 3,943
2000C1/C2 Variable Rate Lease Revenue Bonds Oakland Coliseum Project 75.400 2,616
2000D Variable Rate Lease Revenue Bonds (Taxable), Oakland Coliseum Project 22.400 3,155
Subtotal 164,398 10.384

Total Direct Debt \$ 1,236,372 88,652

Existing Direct Debt as a % of FY 02-03 General Fund Revenues

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Item
ORA/Council
July 15,2003