



## City Council Report

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**File ID:** 2019-00434

April 23, 2019

**Consent Item 10**

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**Title: Revised Debt-Management Policy of the City of Sacramento and Revised Supplemental Policy on Disclosure**

**Location:** Citywide

**Recommendation:** Adopt a Resolution approving the revised Debt-Management Policy for the City of Sacramento and the revised Supplemental Policy on Disclosure.

**Contact:** Brian Wong, Debt Manager (916) 808-5811; Colin Bettis, Senior Debt Analyst (916) 808-8292, Office of the City Treasurer

**Presenter:** None

**Attachments:**

1-Description/Analysis

2-Resolution

3-Debt-Management Policy adopted on June 19, 2019

4-Supplemental Policy on Disclosure adopted on June 19, 2019

5-Debt-Management Policy [Redline]

6-Supplemental Policy on Disclosure [Redline]

7-Exhibit A – Debt-Management Policy

8-Exhibit B – Supplemental Policy on Disclosure

## Description/Analysis

**Issue Detail:** The City's Debt-Management Policy and Supplemental Policy on Disclosure (together, the **Policies**) were most recently revised and approved on June 19, 2018. The Policies require periodic review by the City Treasurer's Office to ensure regulatory compliance or to clarify objectives and guidelines for the issuance and administration of City debt.

On August 20, 2018, the Securities and Exchange Commission (the **SEC**) adopted amendments to SEC Rule 15c2-12 that enhance transparency in the municipal-securities market and became effective on February 27, 2019 (the **Amendments**). The Amendments added two new events to the list of events for which an issuer or obligated person must provide notice to the bond market through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website:

- "Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material."
- "Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties."

Importantly, an event notice must be given no later than 10 business days after the reportable event occurs.

The revised Policies will facilitate the CTO's compliance with the Amendments by requiring each City department that enters into an equipment lease or obtains a loan from a non-City lender to provide the CTO with copies of the related documentation **before** entering into (or modifying) the lease or loan.

**Policy Considerations:** Formal approval of a debt-management policy and periodic updates are recognized as a "best practice" by the Government Finance Officers Association and California Debt and Investment Advisory Commission.

**Economic Impacts:** Not applicable.

**Environmental Considerations:** Approval of the recommendation is not a "project" subject to CEQA because it (a) has no potential to cause a significant effect on the environment; (b) approves a continuing administrative activity (general policy and procedure making) and is thus excluded from the definition of "project"; and (c) concerns governmental fiscal activities

that do not involve any commitment to any specific project that may result in a potentially significant physical impact on the environment. (14 Cal. Code Regs §§15061(b)(3) and 15378(b)(4)).

**Sustainability:** Not applicable.

**Commission/Committee Action:** Not applicable.

**Rationale for Recommendation:** Approval of the revised Policies will bring them into alignment with the amendments to SEC Rule 15c2-12.

**Financial Considerations:** Approval of the Policies has no direct financial impact or costs. It allows for the continued issuance of debt, clarifies the guidelines for the responsibilities of issuing the City's debt, and maintains compliance with reporting requirements in accordance with SEC Rule 15c2-12.

**Local Business Enterprise (LBE):** Not applicable.

## RESOLUTION NO. 2019-

Adopted by the Sacramento City Council

April 23, 2019

### APPROVING A REVISED DEBT-MANAGEMENT POLICY AND A REVISED SUPPLEMENTAL POLICY ON DISCLOSURE

#### BACKGROUND

- A. Debt financing of City projects can be a cost-effective means of providing key facilities and services. The City has a long history of issuing multiple types of debt and working with internal and external stakeholders—including City departments, developers, residents, businesses, and other governmental agencies—to achieve the most cost-effective financing option for necessary projects or capital improvements.
- B. On August 24, 2010, the City Council adopted a Debt-Management Policy setting forth guiding principles for the City's issuance and management of debt. The City Council amended the Debt-Management Policy on June 2, 2011, by adding a Supplemental Policy Statement on Disclosure. The Debt-Management Policy applies to debt issued by the City, the Sacramento City Financing Authority, the Sacramento Public Financing Authority, and the Redevelopment Agency Successor Agency.
- C. On February 7, 2017, the City Council adopted Resolution No. 2017-0046 approving an amended Debt-Management Policy and an amended Supplemental Policy Statement of Disclosure (renamed as Supplemental Policy on Disclosure) to comply with Government Code section 8855, which required certain changes in debt policies adopted by local agencies.
- D. On June 19, 2018, the City Council adopted Resolution No. 2018-0251 approving an amended Debt-Management Policy and an amended Supplemental Policy on Disclosure to comply with the federal Tax Cuts and Jobs Act of 2017, which eliminated the advance refunding of tax-exempt debt.
- E. On August 20, 2018, the Securities and Exchange Commission (the "**SEC**") adopted amendments to SEC Rule 15c-2-12 that enhance transparency in the municipal-securities market and became effective on February 27, 2019 (the **Amendments**). The Amendments added the following events to the list of events for which an issuer or obligated person must provide notice to the bond market through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website:

- “Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material” (New ¶ (B)(5)(i)(C)(15) of SEC Rule 51c2-12).
- “Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties” (New ¶ (B)(5)(i)(C)(16) of SEC Rule 51c2-12).

F. SEC Rule 15c2-12 further requires that an event notice be given no later than 10 business days after the reportable event occurs.

G. The City Treasurer’s Office and the City Attorney’s Office, in consultation with the Stradling Yocca Carlson & Rauth, the City’s disclosure counsel, have revised the City’s Debt-Management Policy and Supplemental Policy on Disclosure to bring those documents in line with the Amendments and current “best practices.”

**BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:**

Section 1. The revised Debt-Management Policy attached as Exhibit A to this resolution is hereby approved.

Section 2. The revised Supplemental Policy on Disclosure attached as Exhibit B to this resolution is hereby approved.

Section 3. This resolution takes effect when adopted.

**Table of Contents:**

Exhibit A – Debt-Management Policy

Exhibit B – Supplemental Policy on Disclosure

**CITY OF SACRAMENTO  
DEBT-MANAGEMENT POLICY**

**Adopted by the City Council on June 19, 2018**

**1. Introduction**

- 1.1 *Background.* The City of Sacramento (the “**City**”) has a long history of issuing multiple types of debt and working with various residents, businesses, developers, and other government agencies to achieve the most effective financing solutions for necessary project and capital improvements. Debt issuance is one way of financing capital projects in a cost-efficient manner while maintaining generational equity. With its limited fiscal resources, the City will continue to explore the issuance of debt as an equitable means of meeting its infrastructure needs.
- 1.2 *Purpose.* This Debt-Management Policy (this “**Policy**”) sets forth the principles and objectives that should guide the City’s decisions to issue debt and establishes guidelines for responsibly managing debt. The core objectives of this Policy include the following:
- (A) Minimize costs of debt service and issuance.
  - (B) Maintain access to cost-effective borrowing.
  - (C) Achieve and maintain the highest practical credit ratings of the various bond and credit types as well as the City’s overall credit rating.
  - (D) Balance pay-as-you-go financing with debt financing.
  - (E) Ensure full and timely repayment of debt.
  - (F) Maintain full and complete financial and non-financial disclosure and reporting with respect to debt and associated credit ratings.
  - (G) Ensure compliance with federal and state laws and regulations.
  - (H) Promote the City’s best interests and protect the City’s financial stability when deciding whether to approve debt.
  - (I) Maintain internal-control procedures to ensure the proceeds of each debt issuance are directed to the intended use.
  - (J) Increase transparency to debt stakeholders and consistency in debt decision making.

1.3 *Scope of Application.* This Policy applies to debt issued by or incurred by the City, the Sacramento City Financing Authority, the Sacramento Public Financing Authority, and the Redevelopment Agency Successor Agency; to debt the City issues on behalf of assessment districts and community facilities districts; and to debt the City issues for third parties i.e., conduit financing (collectively, “**City Debt**”). From time to time, however, compelling or extraordinary circumstances may arise that require the City Council, at the recommendation of the City Treasurer or Debt Manager, to make an exception to this Policy. Certain obligations of the City—such as Other Post-Employment Benefits (“**OPEB**”) and debt not involving the issuance of bonds—are not subject to this Policy

**2. Governing Authority and Responsibility**

2.1 *Authority.* The City’s debt program for all City funds must be operated in conformance with applicable federal, state, and other legal requirements, including authorizing sections of the Sacramento City Code and the various bond covenants of the City’s outstanding bond obligations.

2.2 *Delegation of Authority.* The City Council assigns its responsibility for managing and coordinating all activities related to the structure, issuance, and post-issuance management of all City Debt to the City Treasurer’s Office.

2.3 *Point of Contact.* The City Treasurer and the Debt Manager within the City Treasurer’s Office (the “**Debt Manager**”) are responsible for maintaining communication to the market on the City’s behalf, with a policy of full disclosure. This includes communication with rating agencies, investors, and other debt-related service providers about the City’s financial condition or the financial condition of enterprise funds that secure revenue bonds. As necessary, the City Treasurer or Debt Manager will seek guidance from the City Attorney’s Office and the City’s disclosure counsel on the appropriateness of disclosing certain matters.

2.4 *Responsibilities.* Debt obligations may not be presented to the City Council for authorization without a joint assessment and mutual recommendation by the City Manager’s Office and the City Treasurer’s Office. City departments that propose debt-financed capital programs or small-equipment acquisitions must work in close coordination with the City Treasurer’s Office, the City Manager’s Office, the City Attorney’s Office, and the City Finance Department by providing information to facilitate the feasibility analysis and due-diligence process before the issuance of debt. In drafting bond-issuance documents and other related matters, the following roles shall serve as general guidance. Roles for a particular financing may differ slightly.

(A) The City Treasurer’s Office—

- (1) is responsible for selecting the structure, timing, and other terms of debt issuance;
- (2) serves as the primary contact between the City and rating agencies, investors, and all other market participants;

- (3) manages non-attorney members of the financing team (see Section 4.5. Professional Assistance)
  - (4) leads the development of all necessary financing documents;
  - (5) presents the financing structure and financing documents to the City Council for approval;
  - (6) manages compliance with post-issuance requirements, including but not limited to continuing-disclosure requirements (in accordance with the Supplemental Policy on Disclosure), private-activity analysis and remediation, and arbitrage requirements; and
  - (7) conducts periodic reviews of this Policy and brings forward to City Council any proposed amendments.
- (B) The City Manager's Office and appropriate City Departments under the City Manager's purview—
- (1) identify and prioritize projects through the City's capital-improvement program;
  - (2) identify sources of funds for repayment of debt service;
  - (3) identify sources of funds for project operations and maintenance;
  - (4) participate in document preparation and review;
  - (5) participate in conference calls or meetings regarding the debt, e.g., due-diligence reviews, rating-agency presentations, investor relations; and
  - (6) provide timely information as needed to ensure compliance with post-issuance requirements, including tracking bond proceed expenditures to comply with arbitrage requirements and annual reporting requirements.
- (C) The City Attorney's Office—
- (1) provides independent verification of the City's compliance with all applicable laws and regulations;
  - (2) selects, retains, and manages outside legal counsel (e.g., bond counsel, disclosure counsel);
  - (3) protects the City's interests;
  - (4) participates in document preparation and review; and

- (5) participates in conference calls or meetings regarding due-diligence review.

(D) The City Council—

- (1) takes this Policy into account when, as a member of joint-powers authorities or as a member of other agencies (e.g., Sacramento Area Flood Control Agency, Sacramento Transportation Authority), it considers the issuance of debt that may affect the City and its constituents;
- (2) reviews and approves this Policy and, if necessary, reviews and considers the approval of recommendations to amend this Policy brought forward by the City Treasurer's Office; and
- (3) reviews and, if appropriate, approves supplemental policies that address various debt and financing instruments (if additional supplemental policies are adopted, then an amended version of Attachment A reflecting those policies must be attached to this Policy).

### **3. Capital Financing Considerations**

3.1 *Constraints.* New debt will affect the long-term affordability of all outstanding and planned debt; the maintenance and operating costs of debt-financed improvements will also affect the City's budget.

- (A) The pledge of repayment implicit in the issuance of debt means that any future issuance of debt is limited; hence, the City Council must consider other current, planned, and outstanding debt (including overlapping debt) when assessing the financial feasibility of a planned project or purchase.
- (B) Additionally, the necessary maintenance and operating costs of projects financed with debt places constraints on the City's budgetary flexibility and should be considered alongside debt capacity as a factor when evaluating any proposed financing.
- (C) Finally, debt issuances should be coordinated with the City's overall capital-improvement program and budget process to the extent possible.

3.2 *Debt Capacity.* Existing laws and regulations and the Sacramento City Code, as well as applicable covenants of existing debt, limit the City's ability to issue new debt. The City Treasurer's Office shall work to ensure that the City Council and the City Manager are aware of outstanding debt levels and of the ramifications if more debt is issued, including the additional financial constraints the City may face. As needed, the City Treasurer's Office may perform debt-capacity analyses to evaluate the long-term effects of debt issuance in relation to the City's objectives.

3.3. *Feasibility.* To ensure consistency with this Policy, the City Council shall not undertake or authorize debt without an assessment and recommendation of the City Manager's Office and City Treasurer's Office.

- (A) General-Fund or Lease-Revenue Bonds. In conjunction with the City Treasurer's Office, the City's Department of Finance shall prepare for each long-term financing an internal feasibility analysis of the effect of debt service and operations on current and future budgets and on the City's overall credit rating. This analysis must also address the reliability of revenues to support debt service. Lease-Revenue Bonds annual debt service must not exceed 15% of annual budgeted revenues or expenditures.
- (B) Special Revenues. In conjunction with the City Treasurer's Office, the City's Department of Finance shall prepare, for each long-term financing, an internal feasibility analysis of the effect of the related debt service and operations costs on current and future budgets and on the City's overall credit rating. This analysis must also address the reliability of revenues that support debt service. Projected revenues from the transient-occupancy tax (Sacramento City Code chapter 3.28) must equal or exceed 150% of annual debt service for senior obligations and 115% of annual debt service for subordinate obligations. Projected revenues from a non-rated community facilities district or assessment district must equal or exceed 110% of the sum annual debt service and administration costs.
- (C) Enterprise Funds. The City Manager's Office and the City Treasurer's Office shall evaluate the affordability of new debt for enterprise funds. Enterprise rate levels must fully cover debt-service requirements and debt-service-coverage ratios as outlined in the applicable bond covenants, as well as the anticipated costs of operations, maintenance, administration, and capital improvement. At the time of debt issuance, the projected net system revenues of the enterprise fund should be sufficient to maintain a coverage ratio equal to or greater than 120% for parity obligations and bonds and 100% for aggregate parity, subordinate, and unsecured obligations. The ability to afford new debt for enterprise operations will be evaluated as an integral part of the City's process for reviewing and setting rates.
- (D) Conduit Financing by a Joint-Powers Authority. The City may agree to the issuance of bonds by various joint-powers authorities (e.g., Association of Bay Area Governments, California Statewide Community Development Authority, California Municipal Finance Authority). Where the City is not the issuer of bonds for a project within the City, the City's policy will be to require the issuer to assume full responsibility for issuance and on-going compliance of the bond issue with federal and state laws. Where feasible, however, the City may hold the public hearing required by the Tax Equity and Fiscal Responsibility Act of 1986 (26 U.S.C. § 147(f)(2)), but the City is not required to do so.
- (E) City-Issued Conduit Financing. In rare instances, the City Treasurer's Office may determine that it is in the City's best interest to issue bonds on behalf of

another governmental entity or a 501(c)(3) corporation within City boundaries. In these instances, neither the City's general fund nor the City's taxing power will be pledged for repayment of the bonds. In addition, the City will rely on the financial analysis provided by the governmental entity or the 501(c)(3) corporation for purposes of due-diligence review before moving forward on the request to issue debt. The City's preferred method for issuing conduit debt is conduit financing by a joint-powers authority.

- (F) **Small-Equipment Lease Financing.** The City may move forward with a small-equipment lease financing at the request of City departments after analysis and due-diligence review by the City Manager's Office or the City Department of Finance, or both. Requests from City departments must demonstrate the need (e.g., legal, environmental, cash flow) for small-equipment lease financing, and the City departments must provide realistic, projected drawdown schedules showing that borrowed funds are spent in accordance with requirements of the Internal Revenue Service (the "**IRS**").

3.4 *Capital Expenditure Considerations.* The City will consider the following factors to evaluate pay-as-you-go financing versus debt financing for funding capital expenditures:

(A) Factors favoring pay-as-you-go

- (1) Projected revenues and fund balances are adequate and available to complete the project, or the project can be completed in phases.
- (2) Existing debt levels might adversely affect the City's credit rating or rating outlook.
- (3) Market conditions are unfavorable or present difficulties in marketing the proposed debt.
- (4) The project's useful life is less than five years.

(B) Factors favoring debt financing

- (1) Current and projected revenues available for debt service are sufficient and reliable so that financings can be marketed with investment-grade credit ratings.
- (2) Market conditions present favorable interest rates and demand for the City financings.
- (3) The project is mandated by federal or state law, and current resources are insufficient or unavailable to fund the project fully within the time required.

- (4) The project is immediately needed to meet or relieve capacity needs or emergency conditions, and current resources are insufficient to fund the project fully within the time required.

## 4. Debt Issuance

### 4.1 *Types and Purposes of Debt*

- (A) Long-Term Debt. Long-term debt may be used to finance the costs of acquiring or improving land, infrastructure, facilities, or equipment if it is appropriate to spread these costs over more than one budget year. Long-term debt may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing-related costs that may be legally capitalized. Long-term debt may not be used to fund City operating costs. The final maturity of long-term debt should not exceed 40 years. The following are the types of long-term debt that may be undertaken by the City:
  - (1) Special-Tax Revenue Bonds. Under the Mello-Roos Community Facilities District Act of 1982, codified at Governmental Code sections 53311 to 53368.3 (the “**Mello-Roos Act**”), the City may use special-tax bonds to finance the construction or acquisition of various public improvements. The Mello-Roos Act provides an efficient means of financing certain public capital facilities and services and promotes economic development in areas that lack sufficient infrastructure, such as infill or brownfield areas. Bonds may be issued to fund capital facilities so long as the estimated useful life of the facilities is at least five years. These bonds must be approved by at least two-thirds of the qualified electors within the CFD.
  - (2) Marks-Roos Bonds. Under the Marks-Roos Local Bond Pooling Act of 1985, codified at Government Code sections 6500 to 6599.3 (the “**Marks-Roos Act**”), governmental entities, in consort with or as part of a joint-powers authority, may use a “pooled” financing technique for a broad array of public capital improvements. The City has used the Marks-Roos Law to issue refunding bonds for community facilities districts as well as for two redevelopment project areas when new-money debt was issued concurrently. Voter approval is not required.
  - (3) Special-Assessment Bonds. The Improvement Act of 1911 and the Improvement Bond Act of 1915 authorize the City to form assessment districts for imposing special-assessment liens on properties within the districts, with the assessment on each property calculated according to the “special benefit” the property receives from the improvements. The assessments are then used to secure payment of bonds that amortize the improvement costs over a period of years. A majority of the property owners within the district must approve both the formation of the district and the issuance of the bonds. Approval occurs through submission of assessment ballots weighted according to the amount of each property’s

proposed assessment. Importantly, for some improvements the “general benefit” may outweigh the “special benefit”; if so, then the usefulness of special-assessment bonds to finance the improvements will be diminished.

- (4) **General Obligation Bonds.** These bonds may be issued by governmental entities that have the legal authority to levy ad valorem property taxes and other charges at whatever rate and amount is necessary to pay the debt. Under article XVI, section 18 of the California Constitution, these bonds may only be issued for the acquisition or improvement of real property such as libraries and public-safety facilities. Two-thirds voter approval is required.
- (5) **Tax-Allocation Bonds.** Until January 2012, the City was authorized to issue tax-allocation bonds (“**TABs**”) that were secured by a pledge of tax-increment revenues from project areas within a redevelopment agency. Proceeds from TABs were used to revitalize blighted and economically depressed areas and promote economic growth. The City is no longer authorized to issue new-money TABs unless the City or its related financing authorities are aware of enforceable obligations that need to be met. Only refunding TABs are now authorized, and only the Redevelopment Agency Successor Agency of the City of Sacramento may issue them.
- (6) **Certificates of Participation and Lease-Revenue Bonds.** These debt instruments are secured by a lease-leaseback arrangement between the City and another public entity. The City uses its general operating revenues (which are not expressly pledged) to pay amounts owed under the lease. The payments are in turn used to pay debt service on lease-revenue bonds issued by a joint-powers authority or on certificates of participation executed and delivered by a trustee. Voter approval is not required because these debt instruments are not subject to the debt limit in article XVI, section 18 of the California Constitution.
- (7) **Revenue Bonds.** These bonds are payable from revenue generated by a City enterprise, such as water and wastewater utilities. Because debt service on revenue bonds is paid solely from enterprise revenues and are not secured by any pledge of tax or general fund revenues, these bonds are not subject to the debt limit in article XVI, section 18 of the California Constitution. Revenue bonds are used for the improvements to the enterprise and are paid by ratepayers that benefit from the service provided by the enterprise.
- (8) **State Revolving Fund Loans or Other Similar Debt Instruments.** An example is the Infrastructure State Revolving Fund Program, which provides financing to public agencies and non-profit corporations sponsored by public agencies; the loan proceeds are used for a variety

of infrastructure and economic-development projects. Often the cost of borrowing through the loan programs is lower than the cost of issuing debt in the public market, but the maximum duration of the loan may be limited. Additionally, the process to obtain a loan may take longer than publicly-issued bonds. Though generally less cost effective than a loan, bonds may afford project financing that has a compressed timeframe.

- (B) Short-Term Debt. Short-term debt may be used as an interim source of funding before the issuance of long-term debt: It may be issued for any purpose for which long-term debt may be issued, including the payment of capitalized interest and other financing-related costs; it may also be used to address legitimate short-term cash-flow requirements during a given fiscal year, so that the City may continue to fund the operating costs of providing necessary public services; and it may be used to bridge the gap in financing before long-term debt is issued to meet the ongoing capital needs of a project or series of projects. The City will not engage in short-term borrowing solely for the purpose of generating investment returns (arbitrage). Short-term debt usually may not exceed five years.
- (1) Tax and Revenue Anticipation Notes (“**TRANS**”). These are short-term notes used to cover cash shortfalls resulting from a mismatch between the timing of revenues and expenditures. The City may issue TRANS when needed to meet general fund cash-flow needs in a fiscal year. TRANS are secured by the property taxes and other revenues received later in the fiscal year. Voter approval is not required.
  - (2) Bond Anticipation Notes (“**BANs**”). These are short-term interest-bearing notes issued in the anticipation of long-term bond issuances. The City may issue BANs as a source of interim financing when the City Treasurer determines that doing so is prudent and advantageous to the City. Voter approval is not required.
  - (3) Lease-Purchase Financings. These financings may be used for the short-term financing of essential equipment. The term of a lease-purchase agreement is typically less than 10 years but may be as long as 15 years. Under this type of financing, the City and a bank enter into a master lease agreement for the lease-purchase of equipment up to a certain aggregate amount. The City and the bank then enter into separate “schedules of property” or “lease schedules” for each lease-purchase of equipment, and the City Council annually budgets and appropriates an amount sufficient to pay rent for the equipment under lease during that year; the failure to appropriate will result in termination of the lease-purchase agreement. Voter approval is not required.
  - (4) Commercial Paper Notes. These notes serve as a cash-management tool used primarily to provide short-term interim funding of capital expenditures that will ultimately be funded from a long-term bond or loan. Commercial-paper notes can reduce a project’s overall interest

costs because only the amount needed for interim funding is borrowed, and interest rates on the interim funding are lower than the rates on the “permanent” funding with long-term bonds or loans. As of the date of this Policy, the City has never issued commercial paper notes, but the need for this type of short-term financing could arise in the future.

- (C) Other Debt. There may be special circumstances when other forms of debt are appropriate; these will be evaluated on a case-by-case basis.
- (D) Refunding. The City Treasurer’s Office will periodically review outstanding City Debt to identify refunding opportunities and evaluate the costs and benefits of restructuring or retiring outstanding obligations. Refunding will be considered (within federal tax-law constraints) when it will provide a net economic benefit or when it is needed to achieve City objectives relating to changes in covenants, call provisions, operational flexibility, tax status, the issuer, debt-service profile, etc. The City may purchase City Debt in the open market for the purpose of retiring the debt when doing so is cost effective.
  - (1) There are two types of refunding transactions: A “current refunding” occurs when outstanding bonds are paid off within 90 days after the proceeds of refunding bonds are deposited into an escrow account with the escrow agent (typically the same entity as the trustee); and an “advance refunding” occurs when outstanding bonds are paid off more than 90 days after proceeds of refunding bonds are deposited into an escrow account with the escrow agent. As of January 1, 2018, federal law prohibits advance refunding of tax-exempt bonds.
  - (2) In general, when the City undertakes a current refunding for net economic benefit, the refunding should produce net-present-value debt-service savings of at least 5%. This 5% threshold is a goal rather than a requirement, as the City may have reason to refund an issue that generates net-present-value savings of less than 5% (e.g., the refunding will eliminate unduly restrictive bond covenants).

4.2 *Public Policy Discussion.* The proceedings to issue debt for projects that are controversial or of high public interest should be conducted with full transparency and public discussion (e.g., through community meetings, public outreach, City Council meetings).

4.3 *Method of Sale.* Except to the extent a competitive process is required by law, the City Treasurer is responsible for determining the appropriate manner in which to offer City Debt to investors. A negotiated sale is preferred because it (A) provides the City more flexibility in determining the structure, time, and date of the sale, which is advantageous in a volatile municipal-bond market; (B) permits the schedule for the issuance and sale of bonds to be expedited when necessary to meet the City’s goals; and (C) affords the chosen underwriter or senior managing underwriter (in the case of an underwriting syndicate) greater opportunity to pre-market the City Debt to potential purchasers, including local investors, before the sale—all of which contributes to the City’s goal of achieving the lowest overall cost

of funds. Other methods of sale, such as competitive sale and private placement, may be considered on a case-by-case basis. For example, private-placement debt may be appropriate when pending litigation or other risks or market conditions make a competitive or publicly negotiated sale difficult.

- 4.4 *Pooled Financing.* The City Treasurer is responsible for determining the appropriate use of third-party “pools” to issue City Debt. The current preferred method of sale is a direct issuance by the City led by one senior managing underwriter or co-senior managing underwriters. The appropriateness of pooled financing depends on par amount of bonds to be issued, the complexity of the financing, and the need for greater bond-market penetration (institutional, retail, and high-net-worth individuals).
- 4.5 *Professional Assistance.* The City Treasurer may periodically select and retain service providers (other than bond and disclosure counsel, which the City Attorney’s Office selects and retains) as needed to meet legal requirements and provide specialized analytical services in an effort to minimize the costs of City Debt. The City Treasurer will make these selections with the goal of achieving an appropriate balance between service (including experience, professional reputation, and market recognition) and cost. The City Treasurer may select service providers through a sole-source process of his or her choosing unless a competitive or other process is required by law or this Policy.

## **5.0 Debt Structure Features**

### **5.1 Debt Repayment**

- (A) *Useful Life.* City Debt must be structured so that the weighted average maturity of the proposed debt is less than or equal to the weighted average economic or useful life of the capital projects or improvements to be financed.
- (B) *Level Debt Service Preferred.* To the extent possible, the structure of debt-service for long-term debt other than special-tax revenue bonds should have combined annual principal and interest payments that remain relatively constant to maturity, i.e., “level debt service.” But in some circumstances non-level debt service may be to the City’s advantage. The City Treasurer’s Office will determine the structure of the debt at the time of borrowing after considering pricing, cash flows, and other relevant factors.

5.2 *Credit Quality.* The City should obtain and maintain the highest possible credit ratings when issuing short-term and long-term debt and will only issue bonds, for itself or others, that have a credit rating of “investment grade” or higher.\* The City will, however, consider the issuance of non-rated land-secured bonds issued through assessment districts or community facilities districts, as well as the issuance of other non-rated bonds if circumstances warrant. The City will not seek a rating for bonds unless the City Treasurer’s Office determines that the bonds are likely to receive a rating of BBB or higher.

- 5.3 *Credit Enhancement.* The City Treasurer’s Office will work with the City’s municipal advisor and underwriter (or senior managing underwriter if there is an underwriting syndicate) of proposed City Debt to analyze the costs and benefits of obtaining bond insurance on a maturity-by-maturity basis for the debt.
- 5.4 *Non-Cash Reserve and Reduced Reserve.* The City Treasurer’s Office will work with the City’s municipal advisor and the underwriter of proposed City Debt (or senior managing underwriter if there is an underwriting syndicate) to analyze the costs and benefits of having no reserve, obtaining a surety reserve policy, or reducing the three-prong reserve test (26 C.F.R. § 1.148-2(f)(2))—for example, to 50% of maximum annual debt service or MADS.
- 5.5 *Fixed-Rate Debt.* The City’s preferred interest-rate mode is fixed rate.
- 5.6 *Variable-Rate Debt.* The City may issue variable-rate debt—i.e., debt that pays interest at a rate that varies according to a pre-determined formula or specified index or results from a periodic remarketing of the debt. Although the City might benefit from variable-rate debt in some transactions, issuing variable-rate debt passes an unknown obligation and risk to future City Councils.
- 5.7 *Derivatives.* Derivatives might be appropriate for certain City borrowing programs. For example, derivatives may be used in connection with the issuance of variable-rate debt. The City Treasurer’s Office will evaluate the use of derivatives on a case by-case basis to determine whether the potential benefits are sufficient to offset any potential costs and whether the derivatives are consistent with state law and financially prudent.
- 5.8 *Call Provisions.* The City Treasurer’s Office will determine the call provisions for City Debt at the time of pricing, mindful that call provisions may affect the price of the bonds and the interest of potential investors. The City’s preferred structure is early optional redemption at par in order to maintain flexibility for future refunding opportunities. The City will not issue non-callable debt unless it is legally required or unless market conditions dictate otherwise; non-callable debt should not be issued solely to generate additional debt-service savings.
- 5.9 *Bond Size.* Unless otherwise directed by the City Treasurer in consultation with the City Manager, the minimum amount the City will finance through the issuance of bonds is \$10 million unless circumstances justify a lower amount. The City may pursue other financing mechanisms—such as pay-as-you-go financing, inter-fund borrowing, lines of credit, and lease financing—for debt less than \$10 million. The City Treasurer will determine whether to move forward with a small debt financing.

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\* For Moody’s Investor Service, “investment grade” means a rating of **P-3** or higher for short-term debt and **Baa3** or higher for long-term debt. For Standard & Poor’s, “investment grade” means a rating of **A-3** or higher for short-term debt and **BBB-** or higher for long-term debt. And for Fitch Ratings, “investment grade” means a rating of **F-3** or higher for short-term debt and **BBB-** or higher for long-term debt.

## 6. Debt Administration and Regulatory Compliance

- 6.1 *Policies and Procedures for Post-Issuance Compliance.* The City Treasurer's Office must maintain written policies and procedures that require compliance with bond covenants and with federal, state, and local laws and regulations. The policies and procedures must address continuing-disclosure requirements; arbitrage-rebate requirements, private-use limitations, other tax-compliance requirements; levy enrollment and administration; delinquency and foreclosure management; debt service and other payments; and permitted investments and uses of bond proceeds.
- 6.2 *Arbitrage Compliance.* The City Treasurer's Office is responsible for keeping all records needed to comply with federal arbitrage requirements for tax-exempt debt.
- (A) For each bond issue, the City Treasurer's Office will pay required rebate amounts, if any, no later than 60 days after each five-year anniversary of the issue date of the bonds and no later than 60 days after the last bond of the issue is redeemed.
- (1) During the construction of each capital project financed with bond proceeds, the City's arbitrage consultant will typically prepare an interim arbitrage-rebate report at least once every 12 months until all proceeds deposited in the project fund have been expended; if, however, the proceeds remaining in the project fund are equal to or less than 5% of the proceeds deposited, then the City Treasurer's Office may have the arbitrage consultant prepare the interim arbitrage-rebate reports according to the timeframe required by IRS regulations.
- (2) After the construction period, the City's arbitrage consultant will prepare an interim arbitrage-rebate report on each five-year anniversary of the issue date of the bonds, or more frequently if warranted.
- (B) During the term of each issue plus three years, the City Treasurer's Office will retain copies of all arbitrage reports, records relating to the use and investment of tax-exempt proceeds, documentation of private use, and other relevant documents associated with the issue. If the issue is refunded, then the retention period for the refunded issue is the life of the refunding issue plus three years. Training may be provided for all personnel working on the IRS's post-issuance-compliance process. If any potential violations to complying with federal tax laws are discovered, then the City Treasurer or City Debt Manager, after consulting with the City Attorney's Office, will contact bond counsel and determine what if any corrective actions are needed (e.g., entry into the Voluntary Closing Agreement Program with the IRS).

- (C) The City Treasurer or City Debt Manager will periodically review the City's post-issuance compliance policies and procedures and will implement revisions as appropriate after consulting with the City Attorney's Office and, if needed, bond counsel.
- (D) When bonds (the refunding bonds) are issued to refund outstanding bonds (the refunded bonds), all remaining proceeds of the refunded bonds—e.g., all amounts remaining in the project fund, reserve fund, and other accounts, plus accrued interest—will be considered for purposes of IRS regulations to be “transferred proceeds” of the refunding bonds and, as such, will be subject to the arbitrage calculations for the refunding bonds. In addition, if the transferred proceeds represent more than 5% of the original deposit in the project fund of proceeds from the refunded bonds (see section 6.2(A)(1) above), then interim arbitrage calculations must be performed on an annual basis until the balance of the transferred proceeds is less than 5% of the original deposit at which point the arbitrage calculations will be completed every five years from the issuance date of the refunding bonds.

6.3 *Use of Proceeds from Tax-Exempt or Taxable Debt and of Assets Financed with Tax-Exempt Debt.* The City Treasurer's Office in conjunction with other City departments is responsible for the following:

- (A) Monitoring the use of proceeds from tax-exempt and taxable debt and the use of assets financed or refinanced with tax-exempt debt throughout the term of the debt to ensure compliance with all covenants and restrictions in the documents relating to the debt and to ensure that the proceeds are directed to the intended use.
- (B) Consulting with the City Attorney's Office and tax counsel in reviewing contracts or other arrangements involving use of assets financed or refinanced with tax-exempt taxable debt to ensure compliance with all covenants and restrictions in the documents relating to the debt.
- (C) Maintaining records for any contracts or other arrangements involving the use of assets financed or refinanced with tax-exempt or taxable debt.
- (D) Maintaining internal-control procedures related to the management and disbursement of proceeds, such as procedures requiring that proceeds are either (1) held by a third-party trustee or fiscal agent, which will disburse the proceeds to, or upon the order of, the City in accordance with one or more written requisitions; or (2) held by the City and deposited and accounted for in a separate fund or account, with withdrawals and expenditures carefully documented.
- (E) Consulting promptly with the City Attorney's Office and tax counsel to develop a course of action to remediate any identified existing or potential violations of restrictions on the use of tax-exempt or taxable proceeds or the use of assets financed or refinanced with tax-exempt or taxable proceeds.

**Attachment A**  
**Supplemental Policies**

*City of Sacramento Policies and Procedures For Use of Special Assessment and Mello-Roos Community Facilities District Financing For Infrastructure, Public Facilities, Programs and Services* (Adopted on June 29, 1993, by Resolution No. 93-381, updated on August 9, 1994, by Resolution 94-491 and on May 15, 2012)

*City of Sacramento Development Fee Financing Program for Commercial, Industrial and Residential Development Projects* (Adopted January 1997 by Resolution No. 97-002)

*California Debt and Investment Advisory Commission Appraisal Standards for Land-Secured Financings* CDIAC 04-07 (Adopted in May 1994 and revised in July 2004)

*City of Sacramento Debt-Management Policy – Supplemental Policy on Disclosure* (Adopted on June 2, 2011, by Resolution No. 2011-322 and updated on January 10, 2017, by Resolution No. 2017-0046)

*City of Sacramento Debt-Management Policy – Supplemental Policy on Disclosure* (Adopted on June 2, 2011, by Resolution No. 2011-322; updated on January 10, 2017, by Resolution No. 2017-0046; and updated on June 19, 2018, by Resolution No. 2018-\_\_\_\_)

**CITY OF SACRAMENTO**  
**DEBT-MANAGEMENT POLICY**  
**Supplemental Policy on Disclosure**

**Adopted by the City Council on June 19, 2018**

**1. Introduction**

- 1.1 This Supplemental Policy on Disclosure governs the City’s discharge of its disclosure obligations related to debt (including lease-revenue obligations) issued by or obtained by the City or by related entities such as the Sacramento City Financing Authority, the Sacramento Public Financing Authority, and the Redevelopment Agency Successor Agency.
- (A) The City and its related entities issue obligations in the public capital markets from time to time. When bonds are issued, the City, whether acting for itself or for a related entity, is obligated to disclose all material information in compliance with federal securities laws, including the Securities Act of 1933, the Securities and Exchange Act of 1934, Rule 10b-5 of the Securities and Exchange Commission (“**SEC**”), and Rule 15c2-12 of the SEC. California Governmental Code section 8855 requires certain disclosures to the California Debt and Investment Advisory Commission.
- (B) Incomplete, inaccurate, or misleading disclosure might have material financial consequences for the City and City officers and employees. For example:
- The SEC could bring civil actions charging that disclosure was negligent, reckless, or intentionally fraudulent; in addition, the SEC could refer cases to U.S. Department of Justice for criminal prosecution
  - The SEC could impose cumbersome procedures and oversight on the City as conditions for settling civil actions.
  - The City could suffer adverse publicity, which might reduce market access.
  - The credit ratings on the City’s debt could be downgraded, resulting in increased costs in future issuances
  - City officials could face personal fines for violations of securities laws.
- (C) Sound disclosure practices can provide both tangible and intangible benefits, including the following:
- Enhanced credibility in the municipal-bond marketplace

- Transparency with rating agencies, investors, and prospective investors
- Improved decision making for prospective investors
- Increased numbers of investors who purchase bonds
- Improved liquidity for bonds
- Demonstrated City commitment to providing timely disclosure to investors, credit-rating agencies, and the public
- The potential for a lower overall cost of borrowing

1.2 Scope of Policy. This policy applies to City information and documents, including the following, that investors are reasonably expected to use when deciding whether to invest in the City's bonds:

- Initial-disclosure documents, i.e., preliminary and final official statements
- Continuing-disclosure documents, i.e., annual financial information and event notices
- In certain circumstances, other information such as presentations in investor conferences
- The Debt Management section of the City Treasurer's webpage (on the City's website), which contains certain historical information, such as past official statements and audited financial reports.

## 2. Governing Authority and Responsibility

2.1 Authority. Either the City Treasurer or the Debt Manager within the City Treasurer's Office (the "**Debt Manager**") shall manage the City's disclosure program in conformance with federal, state, and local requirements, including the Sacramento City Code and the City's Debt-Management Policy.

2.2 Point of Contact. Either the City Treasurer or the Debt Manager shall be the City's point of contact for disclosure, primarily responsible not only for developing and distributing information but also for determining the materiality of information.

2.3 Responsibility.

- (A) The City Treasurer or the Debt Manager shall oversee all aspects of disclosure. As such, the City Treasurer or the Debt Manager shall review the form and content of the City's documents and materials prepared, issued, or distributed in connection with the City's disclosure obligations relating to its debt. Those documents and materials include preliminary and final official statements; annual financial information and event notices filed with

Electronic Municipal Market Access (“**EMMA**”), the Municipal Securities Rulemaking Board’s disclosure portal; voluntary filings with EMMA; and other communications that investors are reasonably expected to use in making investment decisions.

- (B) Along with the City Treasurer and his or her staff, the City Attorney and City Manager shall serve as integral members of the financing team, each responsible, as appropriate, for ensuring and certifying to the accuracy of information released to the market.
- (C) The City is responsible for the content of its disclosure documents. The City Treasurer, City Attorney, and City Manager shall ensure that the use of outside professionals for their respective areas of expertise is appropriate and that reliance upon outside professionals is reasonable and not excessive.
- (D) The City Treasurer or the Debt Manager shall ensure that subject-matter experts, including City staff with relevant knowledge or expertise, are involved in developing and periodically reviewing and updating disclosure documents. For example, when obligations are secured by particular revenues such as water or sewer fees, City staff who are knowledgeable about the relevant utility must be involved.
- (E) The City Treasurer or the Debt Manager, in collaboration with the City Attorney, shall arrange for the engagement of disclosure counsel to assist the City in complying with disclosure requirements. The City Treasurer or the Debt Manager shall also arrange for the periodic training of City officers and employees regarding their disclosure obligations under federal securities laws.
- (F) City officers and employees serving as financing-team members are responsible for reviewing and commenting on draft documents. As part of their review, they must determine whether all material information—including confidential or politically sensitive information—has been included and is both accurate and relevant.
- (G) City officers and employees and the officers and employees of related entities shall promptly provide all information, assurances, and certifications that the City Treasurer requests, in his or her sole discretion, for compliance with federal securities laws. The City Manager and City Attorney shall require prompt and full responses to those requests.

### **3. Certifications**

- 3.1 In connection with the City Council’s approval of preliminary or final official statements for publicly issued debt, an appropriate City officer or employee shall certify in writing, to the best of his or her knowledge, that the documents do not

make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

- 3.2 The City Treasurer or the Debt Manager shall provide offering documents such as preliminary official statements to appropriate City officials (which may include the Mayor and City Council, City Manager, City Attorney, and other City officers and employees) in such a manner as to allow timely, informed decisions regarding disclosure.

**CITY OF SACRAMENTO  
DEBT-MANAGEMENT POLICY**

Adopted by the City Council on ~~June 19, 2018~~ April 23, 2019

**0.1. Introduction**

~~0.01.1~~ 0.01.1 *Background.* The City of Sacramento (the “**City**”) has a long history of issuing multiple types of debt and working with various residents, businesses, developers, and other government agencies to achieve the most effective financing solutions for necessary project and capital improvements. Debt issuance is one way of financing capital projects in a cost-efficient manner while maintaining generational equity. With its limited fiscal resources, the City will continue to explore the issuance of debt as an equitable means of meeting its infrastructure needs.

~~0.01.2~~ 0.01.2 *Purpose.* This Debt-Management Policy (this “**Policy**”) sets forth the principles and objectives that should guide the City’s decisions to issue debt and establishes guidelines for responsibly managing debt. The core objectives of this Policy include the following:

- ~~(A)~~ (A) Minimize costs of debt service and issuance.
- ~~(B)~~ (B) Maintain access to cost-effective borrowing.
- ~~(C)~~ (C) Achieve and maintain the highest practical credit ratings of the various bond and credit types as well as the City’s overall credit rating.
- ~~(D)~~ (D) Balance pay-as-you-go financing with debt financing.
- ~~(E)~~ (E) Ensure full and timely repayment of debt.
- ~~(F)~~ (F) Maintain full and complete financial and non-financial disclosure and reporting with respect to debt and associated credit ratings.
- ~~(G)~~ (G) Ensure compliance with federal and state laws and regulations.
- ~~(H)~~ (H) Promote the City’s best interests and protect the City’s financial stability when deciding whether to approve debt.
- ~~(I)~~ (I) Maintain internal-control procedures to ensure the proceeds of each debt issuance are directed to the intended use.
- ~~(J)~~ (J) Increase transparency to debt stakeholders and consistency in debt decision making.

1.3 *Scope of Application.* This Policy applies to debt issued by or incurred by the City, the Sacramento City Financing Authority, the Sacramento Public Financing Authority, and the Redevelopment Agency Successor Agency; to debt the City issues on behalf of assessment districts and community facilities districts; and to debt the City issues for third parties i.e., conduit financing (collectively, “**City Debt**”). From time to time, however, compelling or extraordinary circumstances may arise that require the City Council, at the recommendation of the City Treasurer or Debt Manager, to make an exception to this Policy. Certain obligations of the City—such as Other Post-Employment Benefits (“**OPEB**”) and debt not involving the issuance of bonds—are not subject to this Policy

**2. Governing Authority and Responsibility**

~~0.02.1~~ *Authority.* The City’s debt program for all City funds must be operated in conformance with applicable federal, state, and other legal requirements, including authorizing sections of the Sacramento City Code and the various bond covenants of the City’s outstanding bond obligations.

~~0.02.2~~ *Delegation of Authority.* The City Council assigns its responsibility for managing and coordinating all activities related to the structure, issuance, and post-issuance management of all City Debt to the City Treasurer’s Office.

~~0.02.3~~ *Point of Contact.* The City Treasurer and the Debt Manager within the City Treasurer’s Office (the “**Debt Manager**”) are responsible for maintaining communication to the market on the City’s behalf, with a policy of full disclosure. This includes communication with rating agencies, investors, and other debt-related service providers about the City’s financial condition or the financial condition of enterprise funds that secure revenue bonds. As necessary, the City Treasurer or Debt Manager will seek guidance from the City Attorney’s Office and the City’s disclosure counsel on the appropriateness of disclosing certain matters.

~~0.02.4~~ *Responsibilities.* Debt obligations may not be presented to the City Council for authorization without a joint assessment and mutual recommendation by the City Manager’s Office and the City Treasurer’s Office. City departments that propose debt-financed capital programs or small-equipment acquisitions must work in close coordination with the City Treasurer’s Office, the City Manager’s Office, the City Attorney’s Office, and the City Finance Department by providing information to facilitate the feasibility analysis and due-diligence process before the issuance of debt. In drafting bond-issuance documents and other related matters, the following roles shall serve as general guidance. Roles for a particular financing may differ slightly.

~~(A)~~ The City Treasurer’s Office—

~~(1)~~ is responsible for selecting the structure, timing, method of issuance (public vs. private placement, negotiated vs. competitive sale), and other terms of debt issuance;

(b)(2) serves as the primary contact between the City and rating agencies, investors, and all other market participants;

~~(1)(3)~~ manages non-attorney members of the financing team (see ~~Section~~section 4.5—, “Professional Assistance”);

~~(1)(4)~~ leads the development of all necessary financing documents;

~~(1)(5)~~ presents the financing structure and financing documents to the City Council for approval;

~~(1)(6)~~ manages compliance with post-issuance requirements, including ~~but not limited to~~ continuing-disclosure requirements (in accordance with the Supplemental Policy on Disclosure), private-activity analysis and remediation, and arbitrage requirements; and

~~(1)(7)~~ conducts periodic reviews of this Policy and brings forward to City Council any proposed amendments.

~~(A)(B)~~ The City Manager’s Office and appropriate City Departments under the City Manager’s purview—

(1) ~~identify~~identifies and ~~prioritize~~prioritizes projects through the City’s capital-improvement program;

~~(1)(2)~~identifyidentifies sources of funds for repayment of debt service;

~~(1)(3)~~identifyidentifies sources of funds for project operations and maintenance;

~~(1)(4)~~participateparticipates in document preparation and review;

~~(2)(5)~~participateparticipates in conference calls or meetings regarding the debt, e.g., due-diligence reviews, rating-agency presentations, investor relations; ~~and~~

~~(2)(6)~~provideprovides timely information as needed to ~~ensure compliance~~comply with post--issuance requirements, including tracking ~~bond proceed~~ expenditures of bond proceeds to comply with arbitrage requirements and annual reporting requirements.; ~~and~~

(7) notifies the City Treasurer’s Office (a) before entering into any loans from non-City lenders or equipment leases that qualify as “debt obligations” for purposes of SEC Rule 15c2-12 and (b) before entering into any amendments of such loans and leases.

~~(A)(C)~~ The City Attorney’s Office—

~~(2)(1)~~ provides independent verification of the City’s compliance with all applicable laws and regulations;

(2) selects, retains, and manages outside legal counsel (e.g., bond counsel, disclosure counsel);

~~(2)~~(3) protects the City's interests;

~~(2)~~(4) participates in document preparation and review; and

- (5) participates in conference calls or meetings regarding due-diligence review.

(D) The City Council—

- (1) takes this Policy into account when, as a member of joint-powers authorities or as a member of other agencies (e.g., Sacramento Area Flood Control Agency, Sacramento Transportation Authority), it considers the issuance of debt that may affect the City and its constituents;
- (2) reviews and approves this Policy and, if necessary, reviews and considers the approval of recommendations to amend this Policy brought forward by the City Treasurer's Office; and
- (3) reviews and, if appropriate, approves supplemental policies that address various debt and financing instruments (if additional supplemental policies are adopted, then an amended version of Attachment A reflecting those policies must be attached to this Policy).

### 3. Capital Financing Considerations

4.43.1 *Constraints.* New money debt will affect the long-term affordability of all outstanding and planned debt; the maintenance and operating costs of debt-financed improvements will also affect the City's budget.

- (A) The pledge of repayment implicit in the issuance of debt means that any future issuance of debt is limited; hence, when assessing the financial feasibility of a planned project or purchase, the City Council must consider other current, planned, and outstanding debt (including overlapping debt) ~~when assessing the financial feasibility of a planned project or purchase as well as other City needs for special projects that benefit City constituents.~~

~~(A)~~(B) Additionally, the necessary maintenance and operating costs of projects financed with debt ~~places~~place constraints on the City's budgetary flexibility and should be considered alongside debt capacity ~~as a factor~~ when evaluating any proposed financing.

~~(A)~~(C) Finally, debt issuances should be coordinated with the City's overall capital-improvement program and budget process to the extent possible.

4.23.2 *Debt Capacity.* Existing laws and regulations and the Sacramento City Code, as – well as applicable covenants of existing debt, limit the City's ability to issue new money debt. The City Treasurer's Office shall work to ensure that the City Council and the City Manager are aware of outstanding debt levels and of the ramifications if ~~more~~additional new-money debt is issued, including the additional financial constraints the City may face. As needed, the City Treasurer's Office may perform

debt-capacity analyses to evaluate the long-term effects of debt issuance in relation to the City's objectives.

2.2.3.3. Feasibility. To ensure consistency with this Policy, the City Council shall not undertake or authorize debt—particularly new-money debt—without an assessment and recommendation of the City Manager’s Office and City Treasurer’s Office.

~~(A)~~(A) General-Fund or Lease-Revenue Bonds. In conjunction with the City Treasurer’s Office, the City’s Department of Finance shall prepare for each long-term financing an internal feasibility analysis of the effect of debt service and operations on current and future budgets and on the City’s overall credit rating. This analysis may be performed formally or informally and must also address the reliability of revenues to support debt service. Annual debt service for Lease-Revenue Bonds ~~annual debt service~~ must not exceed 15% of annual budgeted revenues or expenditures.

~~(B)~~(B) Special Revenues. In conjunction with the City Treasurer’s Office, the City’s Department of Finance shall prepare, for each long-term financing, an internal feasibility analysis ~~of (formal or informal) that identifies~~ the effect of the related debt service and ~~operations~~operation costs on current and future budgets and on the City’s overall credit rating.- This analysis must also address the reliability of revenues that support debt service. Projected revenues from the transient-occupancy tax (Sacramento City Code chapter 3.28) must equal or exceed 150% of annual debt service for senior obligations and 115% of annual debt service for subordinate obligations. Projected revenues from a non-rated community facilities district or assessment district must equal or exceed 110% of the sum of annual debt ~~service~~ and administration costs.

~~(C)~~(C) Enterprise Funds. The City Manager’s Office and the City Treasurer’s Office shall evaluate the affordability of new money debt for enterprise funds. Enterprise rate levels must fully cover debt-service requirements and debt-service ~~coverage~~ ratios as outlined in the applicable bond covenants, as well as the anticipated costs of operations, maintenance, administration, and capital improvement. At the time of debt issuance, the projected net system revenues of the enterprise fund should be sufficient to maintain a coverage ratio equal to or greater than 120% for parity obligations and bonds and 100% for aggregate parity, subordinate, and unsecured obligations. The ability to afford new debt for enterprise operations will be evaluated as an integral part of the City’s process for reviewing and setting rates.

~~(A)~~(D) Conduit Financing by a Joint-Powers Authority. The City may agree to the issuance of bonds by various joint-powers authorities (e.g., Association of Bay Area Governments, California Statewide Community Development Authority, California Municipal Finance Authority). ~~Where~~When the City is not the issuer of bonds for a project within the City, the City’s policy will be to require the issuer to assume full responsibility for issuance and on-going compliance of the ~~–bond~~ issue with federal and state laws. ~~Where~~When feasible, ~~however~~, the City may hold the public hearing required by the Tax Equity and Fiscal Responsibility Act of 1986 (26 U.S.C. § 147(f)(2)), ~~))~~ but ~~the City~~ is not required to do so.

(A)(E) City-Issued Conduit Financing. In rare instances, the City Treasurer's Office may determine that it is in the City's best interest to issue bonds on behalf of \_

another governmental entity or a 501(c)(3) corporation within ~~City~~the City's boundaries. In these instances, neither the City's general fund nor the City's taxing power will be pledged for repayment of the bonds. In addition, the City will rely on the financial analysis provided by the governmental entity or the 501(c)(3) corporation for purposes of due-diligence review before moving forward on ~~the~~ request to issue debt. The City's preferred method for issuing conduit debt is conduit financing by a joint-powers authority.

~~(A)~~(E) Small-Equipment Lease Financing. The City may move forward with a small-equipment lease financing at the request of City departments after analysis and due-diligence review by the City Manager's Office ~~or~~ the City Department of Finance, ~~or both~~and the City Treasurer's Office. Requests from City departments must demonstrate the need (e.g., legal, environmental, cash flow) for small-equipment lease financing, and the City departments must provide realistic, projected drawdown schedules showing that borrowed funds ~~are~~will be spent in accordance with requirements of the Internal Revenue Service (the "IRS"). The City Treasurer's Office will determine whether additional disclosure will be required at the time the financing is entered into and will make the decision based on consultation with the City's disclosure counsel.

2.33.4 *Capital Expenditure Considerations*. The City will consider the following factors to evaluate pay-as-you-go financing versus debt financing for funding capital expenditures:

~~(A)~~(A) Factors favoring pay-as-you-go

~~(1)~~(1) Projected revenues and fund balances are adequate and available to complete the project, or the project can be completed in phases.

~~(2)~~(2) Existing debt levels might adversely affect the City's credit rating or rating outlook.

~~(3)~~(3) Market conditions are unfavorable or present difficulties in marketing the proposed debt.

~~(4)~~(4) The project's useful life is less than five years.

(5) Debt financing would be the preferred method, but circumstances require delaying the financing.

~~(B)~~(B) Factors favoring debt financing

~~(1)~~(1) Current and projected revenues available for debt service are sufficient and reliable so that financings can be marketed with investment-grade credit ratings.

~~(2)~~(2) Market conditions present favorable interest rates and demand for the City financings.

(b)(3) The project is mandated by federal or state law, and current resources are insufficient or unavailable to fund the project fully within the time required.

- (4) The project is immediately needed to meet or relieve capacity needs or emergency conditions, and current resources are insufficient to fund the project fully within the time required.

#### 4. Debt Issuance

##### 4.24.1 *Types and Purposes of Debt*

~~(A)~~ Long-Term Debt. Long-term new-money debt may be used to finance the costs of acquiring or improving land, infrastructure, facilities, or equipment if it is appropriate to spread these costs over more than one budget year. Long-term new-money debt may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing-related costs that may be legally ~~capitalized~~. Long-term new-money debt may not be used to fund City operating costs. The final maturity of long-term debt should not exceed 40 years. The following are the types of long-term debt that may be undertaken by the City:

~~(1)~~ Special-Tax Revenue Bonds. Under the Mello-Roos Community Facilities District Act of 1982, codified at Governmental Code sections 53311 to 53368.3 (the “**Mello-Roos Act**”), the City may use special-tax bonds to finance the construction or acquisition of various public improvements. The Mello-Roos Act provides an efficient means of financing certain public capital facilities and services and promotes economic development in areas that lack sufficient infrastructure, such as infill or brownfield areas. Bonds may be issued to fund capital facilities so long as the estimated useful life of the facilities is at least five years. These bonds must be approved by at least two-thirds of the qualified electors within the CFD.

~~(2)~~ Marks-Roos Bonds. Under the Marks-Roos Local Bond Pooling Act of 1985, codified at Government Code sections 6500 to 6599.3 (the “**Marks-Roos Act**”), governmental entities, in consort with or as part of a joint-powers authority, may use a “pooled” financing technique for a broad array of public capital improvements. The City has used the Marks-Roos Law to issue refunding bonds for community facilities districts as well as for two redevelopment project areas when new-money debt was issued concurrently. Voter approval is not required.

Special-Assessment Bonds. The Improvement Act of 1911 and the Improvement Bond Act of 1915 authorize the City to form assessment districts for imposing special-assessment liens on properties within the districts, with the assessment on each property calculated according to the “special benefit” the property receives from the improvements. The assessments are then used to secure payment of bonds that amortize the improvement costs over a period of years. A majority of the property owners within the district must approve both the formation of the district

and the issuance of the bonds. Approval occurs through submission of assessment ballots weighted according to the amount of each property's proposed assessment. Importantly, for some improvements the "general benefit" may outweigh the "special benefit"; if so, then the usefulness of special-assessment bonds to finance the improvements will be diminished.

~~(3)~~ ~~General-Obligation Bonds.~~ These bonds may be issued by governmental entities that have the legal authority to levy ad valorem property taxes and other charges at whatever rate and amount is necessary to pay the debt. Under article XVI, section 18, of the California Constitution, these bonds may only be issued ~~for the acquisition or~~ ~~(1)(3) improvement of real property such as libraries and public safety facilities.~~ ~~Tw~~with two-thirds voter approval is required.

~~(1)(4)~~ ~~Tax-Allocation Bonds.~~ Until January 2012, the City was authorized to issue tax-allocation bonds (~~TABs~~or tax-allocation revenue bonds (~~TABs~~ or ~~TARBs~~)) that were secured by a pledge of tax-increment revenues from project areas within a redevelopment agency. Proceeds from TABs and TARBs were used to revitalize blighted and economically depressed areas and promote economic growth. The City is no longer authorized to issue new-money TABs or TARBs unless the City or its related financing authorities are aware of enforceable obligations that need to be met. Only refunding TABs are now authorized, and only the Redevelopment Agency Successor Agency of the City of Sacramento may issue them.

~~(2)(5)~~ ~~Certificates of Participation and Lease-Revenue Bonds.~~ These debt instruments are secured by a lease-leaseback arrangement between the City and another public entity. The City uses its general operating revenues (which are not expressly pledged) to pay amounts owed under the lease. The payments are in turn used to pay debt service on lease-revenue bonds issued by a joint-powers authority or on certificates of participation executed and delivered by a trustee. Voter approval is not required because these debt instruments are not subject to the debt limit in article XVI, section 18 of the California Constitution. The City Council must annually appropriate funding for the repayment of debt service associated with these types of debt instruments as part of the approval of the City's budget.

~~(2)(6)~~ ~~Revenue Bonds.~~ These bonds are payable from revenue generated by a City enterprise, such as water and wastewater utilities. Because debt service on revenue bonds is paid solely from enterprise revenues and are not secured by any pledge of tax or general fund revenues, these bonds are not subject to the debt limit in article XVI, section 18 of the California Constitution. Revenue bonds are used for the improvements to the enterprise and are paid by ratepayers that benefit from the service provided by the enterprise.

(2)(7) State Revolving Fund Loans or Other Similar Debt Instruments. An example is the Infrastructure State Revolving Fund Program, which provides financing to public agencies and non-profit corporations sponsored by public agencies; the loan proceeds are used for a variety

of infrastructure and economic-development projects. Often the cost of borrowing through the loan programs is lower than the cost of issuing debt in the public market, but the maximum duration of the loan may be limited. Additionally, the process to obtain a loan may take longer than publicly-issued bonds. Though generally less cost effective than a loan, bonds may afford ~~project financing for projects that has a~~ compressed have an expedited timeframe.

- (B) Short-Term Debt. Short-term debt may be used as an interim source of funding before the issuance of long-term debt. It may be issued for any governmental purpose for which long-term debt may be issued, including the payment of capitalized interest and other financing-related costs; it may also be used to address legitimate short-term cash-flow requirements during a given fiscal year, so that the City may continue to fund the operating costs of providing necessary public services; and it may be used to bridge the gap in financing before long-term debt is issued to meet the ongoing capital needs of a project or series of projects. The City will not engage in short-term borrowing solely for the purpose of generating investment returns (arbitrage). Short-term debt usually may not exceed five years.

~~(0)~~(1) Tax and Revenue Anticipation Notes (“**TRANS**”). These are short-term notes used to cover cash shortfalls resulting from a mismatch between the timing of revenues and expenditures. The City may issue TRANS when needed to meet general fund cash-flow needs in a fiscal year. TRANS are secured by the property taxes and other revenues received later in the fiscal year. Voter approval is not required. TRANS often must be repaid in the fiscal year in which they are issued to cover short-term cash-flow shortfalls.

~~(0)~~(2) Bond Anticipation Notes (“**BANs**”). These are short-term interest-bearing notes issued in the anticipation of long-term bond issuances. The City may issue BANs as a source of interim financing when the City Treasurer determines that doing so is prudent and advantageous to the City. Voter approval is not required.

~~(0)~~(3) Lease-Purchase Financings. These financings may be used for the short-term financing of essential equipment. The term of a lease-purchase agreement is typically less than 10 years but may be as long as 15 years. Under this type of financing, the City and a bank enter into a master lease agreement for the lease-purchase of equipment up to a certain aggregate amount. The City and the bank then enter into separate “schedules of property” or “lease schedules” for each lease-purchase of equipment, and the City Council annually budgets and appropriates an amount sufficient to pay rent for the equipment under lease during that year; the failure to appropriate will result in termination of the lease-purchase agreement. Voter approval is not required.

(b)(4) Commercial Paper Notes. These notes serve as a cash-management tool used primarily to provide short-term interim funding of capital expenditures that will ultimately be funded from a long-term bond or loan. Commercial-paper notes can reduce a project's overall interest

costs because only the amount needed for interim funding is borrowed, and interest rates on the interim funding are lower than the rates on the “permanent” funding with long-term bonds or loans. As of the date of this Policy, the City has never issued commercial paper notes, but the need for this type of short-term financing could arise in the future.

~~(B)~~(C) Other Debt. There may be special circumstances when other forms of debt are appropriate; these will be evaluated on a case-by-case basis.

~~(C)~~(D) Refunding. The City Treasurer’s Office will periodically review outstanding City Debt to identify refunding opportunities and evaluate the costs and benefits of restructuring or retiring outstanding obligations. Refunding will be considered (within federal tax-law constraints) when it will provide a net economic benefit or when it is needed to achieve City objectives relating to necessary changes in restrictive covenants, call provisions, operational flexibility, tax status, the issuer, debt-service profile, etc. The City may purchase City Debt in the open market for the purpose of retiring the debt when doing so is cost effective.

~~(1)~~(1) ~~There are two types~~ Only one type of refunding ~~transactions. A transaction is allowed: a “current refunding” occurs,~~ which is when outstanding bonds are paid off within 90 days after the proceeds of refunding bonds are deposited into an escrow account with the escrow agent (typically the same entity as the trustee); ~~and an “advance refunding” occurs when outstanding bonds are paid off more than 90 days after proceeds of refunding bonds are deposited into an escrow account with the escrow agent. As of January 1, 2018, federal law prohibits advance refunding of tax-exempt bonds.)~~

~~(2)~~(2) In general, when the City undertakes a current refunding for net economic benefit, the refunding should produce net-present-value debt-service savings of at least 5%. This 5% threshold is a goal rather than a requirement, as the City may have reason to refund an issue that generates net-present-value savings of less than 5% (e.g., the refunding will eliminate unduly restrictive bond covenants) ~~.)~~ or conversely aim for a higher targeted minimum level of savings.

4.24.2 *Public Policy Discussion.* The proceedings to issue debt for projects that are controversial or of high public interest should be conducted with full transparency and public discussion (e.g., through community meetings, public outreach, City Council meetings).

4.34.3 *Method of Sale.* Except to the extent a competitive process is required by law, the City Treasurer is responsible for determining the appropriate manner in which to offer City Debt to investors. A negotiated sale is preferred because it (A) provides the City more flexibility in determining the structure, time, and date of the sale, which is advantageous in a volatile municipal-bond market; (B) permits the schedule for the issuance and sale of bonds to be expedited when necessary to meet the City’s goals; and (C) affords the chosen underwriter or senior managing

underwriter (in the case of an underwriting syndicate) greater opportunity to pre-market the City Debt to potential purchasers, including local investors, before the sale—all of which contributes to the City’s goal of achieving the lowest overall cost

of funds. Other methods of sale, such as competitive sale and private placement, may be considered on a case-by-case basis. For example, private-placement debt may be appropriate when pending litigation or other risks or market conditions make a competitive or publicly negotiated sale difficult.

1.34.4 *Pooled Financing*. The City Treasurer is responsible for determining the appropriate use of third-party “pools” to issue City Debt. The current preferred method of sale is a direct issuance by the City led by one senior managing underwriter or co-senior managing underwriters. The appropriateness of pooled financing depends on par amount of bonds to be issued, the complexity of the financing, and the need for greater bond-market penetration (institutional, retail, and high-net-worth individuals).

1.34.5 *Professional Assistance*. The City Treasurer may periodically select and retain service providers (other than bond and disclosure counsel, which the City Attorney’s Office selects and retains) as needed to meet legal requirements and provide specialized analytical services in an effort to minimize the costs of City Debt. The City Treasurer will make these selections with the goal of achieving an appropriate balance between service (including experience, professional reputation, and market recognition) and cost. The City Treasurer may select service providers through a sole-source process of his or her choosing unless a competitive or other process is required by law ~~or~~, this Policy, or City Procurement “best practices.”

## 5.0 Debt Structure Features

### 4.05.1 *Debt Repayment*

~~(A)~~(A) Useful Life. City Debt must be structured so that the weighted average maturity of the proposed debt is less than or equal to the weighted average economic or useful life of the capital projects or improvements to be financed.

~~(A)~~(B) Level Debt Service Preferred. To the extent possible, the structure of debt-service for long-term debt other than special-tax revenue bonds should have combined annual principal and interest payments that remain relatively constant to maturity, i.e., “level debt service.” But in some circumstances non-level debt service may be to the City’s advantage or is the norm—such as in the case of Special Tax Revenue Bonds where debt service increases by about 2% annually. The City Treasurer’s Office will determine the structure of the debt at the time of borrowing after considering pricing, cash flows, and other relevant factors.

5.2 *Credit Quality*. The City should obtain and maintain the highest possible credit ratings when issuing short-term and long-term debt and will only issue bonds, for itself or others, that have a credit rating of “investment grade” or higher ~~+~~. \* The City will,

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\* For Moody’s Investor Service, “investment grade” means a rating of **P-3** or higher for short-term debt and **Baa3** or higher for long-term debt. For Standard & Poor’s, “investment grade” means a rating of **A-3** or higher for short-term debt and **BBB-** or higher for long-term debt. And for Fitch Ratings, “investment grade” means a rating of **F-3** or higher for short-term debt and **BBB-** or higher for long-term debt.

however, consider the issuance of non-rated land-secured bonds issued through assessment districts or community facilities districts, as well as the issuance of other non-rated bonds if circumstances warrant. The City will not seek a rating for bonds unless the City Treasurer's Office determines that the bonds are likely to receive a rating of BBB or higher.

5-25.3 *Credit Enhancement.* The City Treasurer's Office will work with the City's municipal advisor and underwriter (or senior managing underwriter if there is an underwriting syndicate) of proposed City Debt to analyze the costs and benefits of obtaining bond insurance on a maturity-by-maturity basis for the debt.

5-25.4 *Non-Cash Reserve and Reduced Reserve.* The City Treasurer's Office will work with the City's municipal advisor and the underwriter of proposed City Debt (or senior managing underwriter if there is an underwriting syndicate) to analyze the costs and benefits of having no reserve, obtaining a surety reserve policy, or ~~reducing~~modifying the three-prong reserve test (26 C.F.R. § 1.148-2(f)(2))—for example, to 50% of maximum annual debt service or ~~MADS~~10% of outstanding principal.

5-25.5 *Fixed-Rate Debt.* The City's preferred interest-rate mode is fixed rate.

5-25.6 *Variable-Rate Debt.* The City may issue variable-rate debt—i.e., debt that pays interest at a rate that varies according to a pre-determined formula or specified index or results from a periodic remarketing of the debt. Although the City might benefit from variable-rate debt in some transactions, issuing variable-rate debt passes an unknown obligation and risk to future City Councils.

5-25.7 *Derivatives.* Derivatives might be appropriate for certain City borrowing programs. For example, derivatives may be used in connection with the issuance of variable-rate debt. The City Treasurer's Office will evaluate the use of derivatives on a case by-case basis to determine whether the potential benefits are sufficient to offset any potential costs and whether the derivatives are consistent with state law and financially prudent.

5-25.8 *Call Provisions.* The City Treasurer's Office will determine the call provisions for City Debt at the time of pricing, mindful that call provisions may affect the price of the bonds and the interest of potential investors. The City's preferred structure is early optional redemption at par in order to maintain flexibility for future refunding opportunities. The City will not issue non-callable debt unless it is legally required or unless market conditions dictate otherwise; non-callable debt should not be issued solely to generate additional debt-service savings.

5-25.9 *Bond Size.* Unless otherwise directed by the City Treasurer in consultation with the City Manager, the minimum amount the City will finance through the issuance of bonds is \$10 million unless circumstances justify a lower amount. The City may pursue other financing mechanisms—such as pay-as-you-go financing, inter-fund borrowing, lines of credit, and lease financing—for debt less than \$10 million. In the case of Special Tax Revenue Bonds, special circumstances may exist that warrant the City Treasurer's consideration of the developer's request to issue bonds in an amount less than \$10 million (e.g., if the bonds are for an infill or brownfield development project). The City Treasurer will determine whether to move forward with a small debt financing.

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\*For Moody's Investor Service, "investment grade" means a rating of **P-3** or higher for short-term debt and **Baa3** or higher for long-term debt. For Standard & Poor's, "investment grade" means a rating of **A-3** or higher for short-term debt and **BBB-** or higher for long-term debt. And for Fitch Ratings, "investment grade" means a rating of **F-3** or higher for short-term debt and **BBB-** or higher for long-term debt.

## 6. Debt Administration and Regulatory Compliance

~~5.06.1~~ 5.06.1 *Policies and Procedures for Post-Issuance Compliance.* The City Treasurer's Office must maintain written policies and procedures that require compliance with bond covenants and with federal, state, and local laws and regulations. The policies and procedures must address continuing-disclosure requirements; arbitrage-rebate requirements, private-use limitations, other tax-compliance requirements; levy enrollment and administration; delinquency and foreclosure management; debt service and other payments; and permitted investments and uses of bond proceeds.

~~5.06.2~~ 5.06.2 *Arbitrage Compliance.* The City Treasurer's Office is responsible for keeping all records needed to comply with federal arbitrage requirements for tax-exempt debt.

~~(A)~~ (A) For each bond issue, the City Treasurer's Office will pay required rebate amounts, if any, no later than 60 days after each five-year anniversary of the issue date of the bonds and no later than 60 days after the last bond of the issue is redeemed.

~~(1)~~ (1) During the construction of each capital project financed with bond proceeds, the City's arbitrage consultant will typically prepare an interim arbitrage-rebate report at least once every 12 months until all proceeds deposited in the project fund have been expended; if, however, the proceeds remaining in the project fund are equal to or less than 5% of the proceeds deposited, then the City Treasurer's Office may have the arbitrage consultant prepare the interim arbitrage-rebate reports according to the timeframe required by IRS regulations.

~~(2)~~ (2) After the construction period, the City's arbitrage consultant will prepare an interim arbitrage-rebate report on each five-year anniversary of the issue date of the bonds, or more frequently if warranted.

~~(B)~~ (B) During the term of each issue plus three years, the City Treasurer's Office will retain copies of all arbitrage reports, records relating to the use and investment of tax-exempt proceeds, documentation of private use, and other relevant documents associated with the issue. If the issue is refunded, then the retention period for the refunded issue is the life of the refunding issue plus three years. Training may be provided for all personnel working on the IRS's post-issuance-compliance process. If any potential violations to complying with federal tax laws are discovered, then the City Treasurer or City Debt Manager, after consulting with the City Attorney's Office, will contact bond counsel and determine what if any corrective actions are needed (e.g., entry into the Voluntary Closing Agreement Program with the IRS).

(C) The City Treasurer or City Debt Manager will periodically review the City's post-issuance compliance policies and procedures and will implement revisions as appropriate after consulting with the City Attorney's Office and, if needed, bond counsel.

(D) When bonds (the refunding bonds) are issued to refund outstanding bonds (the refunded bonds), all remaining proceeds of the refunded bonds—e.g., all amounts remaining in the project fund, reserve fund, and other accounts, plus accrued interest—will be considered for purposes of IRS regulations to be “transferred proceeds” of the refunding bonds and, as such, will be subject to the arbitrage calculations for the refunding bonds. In addition, if the transferred proceeds represent more than 5% of the original deposit in the project fund of proceeds from the refunded bonds (see section 6.2(A)(1) above), then interim arbitrage calculations must be performed on an annual basis until the balance of the transferred proceeds is less than 5% of the original deposit at which point the arbitrage calculations will be completed every five years from the issuance date of the refunding bonds.

5.06.3 *Use of Proceeds from Tax-Exempt or Taxable Debt and of Assets Financed with Tax-Exempt Debt.* The City Treasurer's Office in conjunction with other City departments is responsible for the following:

(A) Monitoring the use of proceeds from tax-exempt and taxable debt and the use of assets financed or refinanced with tax-exempt debt throughout the term of the debt to ensure compliance with all covenants and restrictions in the documents relating to the debt and to ensure that the proceeds are directed to the intended use.

(B) Consulting with the City Attorney's Office and tax counsel in reviewing contracts or other arrangements involving use of assets financed or refinanced with tax-exempt taxable debt to ensure compliance with all covenants and restrictions in the documents relating to the debt.

(C) Maintaining records for any contracts or other arrangements involving the use of assets financed or refinanced with tax-exempt or taxable debt.

(D) Maintaining internal-control procedures related to the management and disbursement of proceeds, such as procedures requiring that proceeds are either (1) held by a third-party trustee or fiscal agent, which will disburse the proceeds to, or upon the order of, the City in accordance with one or more written requisitions; or (2) held by the City and deposited and accounted for in a separate fund or account, with withdrawals and expenditures carefully documented.

(E) Consulting promptly with the City Attorney's Office and tax counsel to develop a course of action to remediate any identified existing or potential violations

of restrictions on the use of tax-exempt or taxable proceeds or the use of assets financed or refinanced with tax-exempt or taxable proceeds.

## Attachment A

### Supplemental Policies

City of Sacramento *Policies and Procedures ~~For~~ Use of Special Assessment and Mello- Roos Community Facilities District Financing ~~For~~ Infrastructure, Public Facilities, Programs and Services* (Adopted on June 29, 1993, by Resolution No. 93-381, updated on August 9, 1994, by Resolution 94-491 and on May 15, 2012)

City of Sacramento *Development Fee Financing Program for Commercial, Industrial and Residential Development Projects* (Adopted January 1997 by Resolution No. 97-002)

California Debt and Investment Advisory Commission *Appraisal Standards for Land-Secured Financings* CDIAC 04-07 (Adopted in May 1994 and revised in July 2004)

City of Sacramento *Debt-Management Policy – Supplemental Policy on Disclosure* (Adopted on June 2, 2011, by Resolution No. 2011-322 and updated on ~~January 10~~February 7, 2017, by Resolution No. 2017-0046); on June 19, 2018, by Resolution No. 2018-0251; and on April 23, 2019, by Resolution No. 2019-          )

~~City of Sacramento *Debt-Management Policy – Supplemental Policy on Disclosure* (Adopted on June 2, 2011, by Resolution No. 2011-322; updated on January 10, 2017, by Resolution No. 2017-0046; and updated on June 19, 2018, by Resolution No. 2018-  
—————)~~

~~Debt-Management Policy | Attachment A~~

# CITY OF SACRAMENTO

## DEBT-MANAGEMENT POLICY Supplemental Policy on Disclosure

Adopted by the City Council on ~~June 19, 2018~~ April 23, 2019

### 0.1. Introduction

~~0.01.1~~ This Supplemental Policy on Disclosure governs the City's discharge of its disclosure obligations related to debt (including lease-revenue obligations) issued by ~~or obtained by~~ the City or by related entities such as the Sacramento City Financing Authority, the Sacramento Public Financing Authority, and the Redevelopment Agency Successor Agency.

~~(A)~~ The City and its related entities issue obligations in the public capital markets from time to time. When bonds are issued, the City, whether acting for itself or for a related entity, is obligated to disclose all material information in compliance with federal securities laws, including the Securities Act of 1933, the Securities and Exchange Act of 1934, Rule 10b-5 of the Securities and Exchange Commission ("**SEC**"), and Rule 15c2-12 of the SEC as amended. California Governmental Code section 8855 requires certain disclosures to the California Debt and Investment Advisory Commission.

~~(B)~~ Incomplete, inaccurate, or misleading disclosure might have material financial consequences for the City and City officers and employees. For example:

- The SEC could bring civil actions charging that disclosure was negligent, reckless, or intentionally fraudulent; in addition, the SEC could refer cases to U.S. Department of Justice for criminal prosecution
- The SEC could impose cumbersome procedures and oversight on the City as conditions for settling civil actions.
- The City could suffer adverse publicity, which might reduce market access.
- The credit ratings on the City's debt could be downgraded, resulting in increased costs in future issuances
- City officials could face personal fines for violations of securities laws.

~~(C)~~ Sound disclosure practices can provide both tangible and intangible benefits, including the following:

- Enhanced credibility in the municipal-bond marketplace

- Transparency with rating agencies, investors, and prospective investors
- Improved decision making for prospective investors
- Increased numbers of investors who purchase bonds
- Improved liquidity for bonds
- Demonstrated City commitment to providing timely disclosure to investors, credit-rating agencies, and the public
- The potential for a lower overall cost of borrowing

1.2 Scope of Policy. This policy applies to City information and documents, including the following, that investors are reasonably expected to be used when deciding whether to invest in the City’s bonds:

~~(A)~~ Initial-disclosure documents, i.e., preliminary and final official statements

~~(B)~~ Continuing-disclosure documents, i.e., annual financial information and event notices

~~(C)~~ In certain circumstances, other information such as presentations in investor conferences

~~• The Debt Management section of the City Treasurer’s webpage (on the City’s website), which contains certain historical information, such as past official statements and audited financial reports.~~

## 2. Governing Authority and Responsibility

~~0.02.1~~ Authority. Either the City Treasurer or the Debt Manager within the City Treasurer’s Office (the “**Debt Manager**”) shall manage the City’s disclosure program in conformance with federal, state, and local requirements, including the Sacramento City Code and the City’s Debt-Management Policy.

~~0.02.2~~ Point of Contact. Either the City Treasurer or the Debt Manager shall be the City’s point of contact for disclosure, primarily responsible not only for developing and distributing information but also for determining the materiality of information.

~~0.02.3~~ Responsibility.

~~(A)~~ The City Treasurer or the Debt Manager shall oversee all aspects of disclosure. As such, the City Treasurer or the Debt Manager shall review the form and content of the City’s documents and materials prepared, issued, or distributed in connection with the City’s disclosure obligations relating to its debt. Those documents and materials include preliminary and final official statements; annual financial information and event notices (see Exhibits A and

[B](#)) filed with Electronic Municipal Market Access (“EMMA”), the Municipal Securities-

Rulemaking Board’s disclosure portal; voluntary filings with EMMA; and other communications that investors are reasonably expected to use in making investment decisions.

- (B) Along with the City Treasurer and his or her staff, the City Attorney and City Manager shall serve as integral members of the financing team, each responsible, as appropriate, for ensuring and certifying to the accuracy of information released to the market.
- (C) The City is responsible for the content of its disclosure documents. The City Treasurer, City Attorney, and City Manager shall ensure that the use of outside professionals for their respective areas of expertise is appropriate and that reliance upon outside professionals is reasonable and not excessive.
- (D) The City Treasurer or the Debt Manager shall ensure that subject-matter experts, including City staff with relevant knowledge or expertise, are involved in developing and periodically reviewing and updating disclosure documents. For example, when obligations are secured by particular revenues such as water or sewer fees, City staff who are knowledgeable about the relevant utility must be involved.
- (E) The City Treasurer or the Debt Manager, in collaboration with the City Attorney, shall arrange for the engagement of disclosure counsel to assist the City in complying with disclosure requirements. The City Treasurer or the Debt Manager shall also arrange for the periodic training of City officers and employees regarding their disclosure obligations under federal securities laws.
- (F) City officers and employees serving as financing-team members are responsible for reviewing and commenting on draft documents. As part of their review, they must determine whether all material information—including confidential or politically sensitive information—has been included and is both accurate and relevant.
- (G) City officers and employees and the officers and employees of related entities shall promptly provide all information, assurances, and certifications ~~that~~ the City Treasurer requests, in his or her sole discretion, for compliance with federal securities laws. The City Manager and City Attorney shall require prompt and full responses to those requests.

### 3. Certifications

[3.1](#)—In connection with the City Council’s approval of preliminary or final official statements for publicly issued debt, an appropriate City officer or employee shall certify in writing, to the best of his or her knowledge, that the documents do not

4.13.1 make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

3.2 The City Treasurer or the Debt Manager shall provide offering documents such as preliminary official statements to appropriate City officials (which may include the Mayor and City Council, City Manager, City Attorney, and other City officers and employees) in such a manner as to allow timely, informed decisions regarding disclosure.

## Exhibit A

### Events Requiring the Filing of Notice with EMMA

#### Debt Issued before February 27, 2019

1. Principal and interest payment delinquencies
2. Non-payment related defaults, if material
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or material events affecting the tax status of the security;
7. Modifications to rights of security holders, if material
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the obligated person;
13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to such actions, other than pursuant to its terms, if material;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

## Exhibit B

### Events Requiring the Filing of Notice with EMMA

#### Debt Issued on or after February 27, 2019

1. Principal and interest payment delinquencies
2. Non-payment related defaults, if material
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or material events affecting the tax status of the security;
7. Modifications to rights of security holders, if material
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the obligated person.
13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to such actions, other than pursuant to its terms, if material;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material;
15. Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.

**CITY OF SACRAMENTO  
DEBT-MANAGEMENT POLICY**

**Adopted by the City Council on April 23, 2019**

**1. Introduction**

- 1.1 *Background.* The City of Sacramento (the “**City**”) has a long history of issuing multiple types of debt and working with various residents, businesses, developers, and other government agencies to achieve the most effective financing solutions for necessary project and capital improvements. Debt issuance is one way of financing capital projects in a cost-efficient manner while maintaining generational equity. With its limited fiscal resources, the City will continue to explore the issuance of debt as an equitable means of meeting its infrastructure needs.
- 1.2 *Purpose.* This Debt-Management Policy (this “**Policy**”) sets forth the principles and objectives that should guide the City’s decisions to issue debt and establishes guidelines for responsibly managing debt. The core objectives of this Policy include the following:
- (A) Minimize costs of debt service and issuance.
  - (B) Maintain access to cost-effective borrowing.
  - (C) Achieve and maintain the highest practical credit ratings of the various bond and credit types as well as the City’s overall credit rating.
  - (D) Balance pay-as-you-go financing with debt financing.
  - (E) Ensure full and timely repayment of debt.
  - (F) Maintain full and complete financial and non-financial disclosure and reporting with respect to debt and associated credit ratings.
  - (G) Ensure compliance with federal and state laws and regulations.
  - (H) Promote the City’s best interests and protect the City’s financial stability when deciding whether to approve debt.
  - (I) Maintain internal-control procedures to ensure the proceeds of each debt issuance are directed to the intended use.
  - (J) Increase transparency to debt stakeholders and consistency in debt decision making.

1.3 *Scope of Application.* This Policy applies to debt issued by or incurred by the City, the Sacramento City Financing Authority, the Sacramento Public Financing Authority, and the Redevelopment Agency Successor Agency; to debt the City issues on behalf of assessment districts and community facilities districts; and to debt the City issues for third parties i.e., conduit financing (collectively, “**City Debt**”). From time to time, however, compelling or extraordinary circumstances may arise that require the City Council, at the recommendation of the City Treasurer or Debt Manager, to make an exception to this Policy. Certain obligations of the City—such as Other Post-Employment Benefits (“**OPEB**”) and debt not involving the issuance of bonds—are not subject to this Policy

## 2. **Governing Authority and Responsibility**

2.1 *Authority.* The City’s debt program for all City funds must be operated in conformance with applicable federal, state, and other legal requirements, including authorizing sections of the Sacramento City Code and the various bond covenants of the City’s outstanding bond obligations.

2.2 *Delegation of Authority.* The City Council assigns its responsibility for managing and coordinating all activities related to the structure, issuance, and post-issuance management of all City Debt to the City Treasurer’s Office.

2.3 *Point of Contact.* The City Treasurer and the Debt Manager within the City Treasurer’s Office (the “**Debt Manager**”) are responsible for maintaining communication to the market on the City’s behalf, with a policy of full disclosure. This includes communication with rating agencies, investors, and other debt-related service providers about the City’s financial condition or the financial condition of enterprise funds that secure revenue bonds. As necessary, the City Treasurer or Debt Manager will seek guidance from the City Attorney’s Office and the City’s disclosure counsel on the appropriateness of disclosing certain matters.

2.4 *Responsibilities.* Debt obligations may not be presented to the City Council for authorization without a joint assessment and mutual recommendation by the City Manager’s Office and the City Treasurer’s Office. City departments that propose debt-financed capital programs or small-equipment acquisitions must work in close coordination with the City Treasurer’s Office, the City Manager’s Office, the City Attorney’s Office, and the City Finance Department by providing information to facilitate the feasibility analysis and due-diligence process before the issuance of debt. In drafting bond-issuance documents and other related matters, the following roles shall serve as general guidance. Roles for a particular financing may differ slightly.

(A) The City Treasurer’s Office—

- (1) is responsible for selecting the structure, timing, method of issuance (public vs. private placement, negotiated vs. competitive sale), and other terms of debt issuance;
- (2) serves as the primary contact between the City and rating agencies, investors, and all other market participants;
- (3) manages non-attorney members of the financing team (see section 4.5, “Professional Assistance”);
- (4) leads the development of all necessary financing documents;
- (5) presents the financing structure and financing documents to the City Council for approval;
- (6) manages compliance with post-issuance requirements, including continuing-disclosure requirements (in accordance with the Supplemental Policy on Disclosure), private-activity analysis and remediation, and arbitrage requirements; and
- (7) conducts periodic reviews of this Policy and brings forward to City Council any proposed amendments.

(B) The City Manager’s Office and appropriate City Departments under the City Manager’s purview—

- (1) identifies and prioritizes projects through the City’s capital-improvement program;
- (2) identifies sources of funds for repayment of debt service;
- (3) identifies sources of funds for project operations and maintenance;
- (4) participates in document preparation and review;
- (5) participates in conference calls or meetings regarding the debt, e.g., due-diligence reviews, rating-agency presentations, investor relations;
- (6) provides timely information as needed to comply with post-issuance requirements, including tracking expenditures of bond proceeds to comply with arbitrage requirements and annual reporting requirements; and
- (7) notifies the City Treasurer’s Office (a) before entering into any loans from non-City lenders or equipment leases that qualify as “debt

obligations” for purposes of SEC Rule 15c2-12 and (b) before entering into any amendments of such loans and leases.

(C) The City Attorney’s Office—

- (1) provides independent verification of the City’s compliance with all applicable laws and regulations;
- (2) selects, retains, and manages outside legal counsel (e.g., bond counsel, disclosure counsel);
- (3) protects the City’s interests;
- (4) participates in document preparation and review; and
- (5) participates in conference calls or meetings regarding due-diligence review.

(D) The City Council—

- (1) takes this Policy into account when, as a member of joint-powers authorities or as a member of other agencies (e.g., Sacramento Area Flood Control Agency, Sacramento Transportation Authority), it considers the issuance of debt that may affect the City and its constituents;
- (2) reviews and approves this Policy and, if necessary, reviews and considers the approval of recommendations to amend this Policy brought forward by the City Treasurer’s Office; and
- (3) reviews and, if appropriate, approves supplemental policies that address various debt and financing instruments (if additional supplemental policies are adopted, then an amended version of Attachment A reflecting those policies must be attached to this Policy).

### **3. Capital Financing Considerations**

3.1 *Constraints.* New-money debt will affect the long-term affordability of all outstanding and planned debt; the maintenance and operating costs of debt-financed improvements will also affect the City’s budget.

- (A) The pledge of repayment implicit in the issuance of debt means that any future issuance of debt is limited; hence, when assessing the financial feasibility of a planned project or purchase, the City Council must consider other current, planned, and outstanding debt (including overlapping debt)

as well as other City needs for special projects that benefit City constituents.

- (B) Additionally, the necessary maintenance and operating costs of projects financed with debt place constraints on the City's budgetary flexibility and should be considered alongside debt capacity when evaluating any proposed financing.
- (C) Finally, debt issuances should be coordinated with the City's overall capital-improvement program and budget process to the extent possible.

3.2 *Debt Capacity.* Existing laws and regulations and the Sacramento City Code, as well as applicable covenants of existing debt, limit the City's ability to issue new-money debt. The City Treasurer's Office shall work to ensure that the City Council and the City Manager are aware of outstanding debt levels and of the ramifications if additional new-money debt is issued, including the additional financial constraints the City may face. As needed, the City Treasurer's Office may perform debt-capacity analyses to evaluate the long-term effects of debt issuance in relation to the City's objectives.

3.3 *Feasibility.* To ensure consistency with this Policy, the City Council shall not undertake or authorize debt—particularly new-money debt—without an assessment and recommendation of the City Manager's Office and City Treasurer's Office.

- (A) *General-Fund or Lease-Revenue Bonds.* In conjunction with the City Treasurer's Office, the City's Department of Finance shall prepare for each long-term financing an internal feasibility analysis of the effect of debt service and operations on current and future budgets and on the City's overall credit rating. This analysis may be performed formally or informally and must also address the reliability of revenues to support debt service. Annual debt service for Lease-Revenue Bonds must not exceed 15% of annual budgeted revenues or expenditures.
- (B) *Special Revenues.* In conjunction with the City Treasurer's Office, the City's Department of Finance shall prepare, for each long-term financing, an internal feasibility analysis (formal or informal) that identifies the effect of the related debt service and operation costs on current and future budgets and on the City's overall credit rating. This analysis must also address the reliability of revenues that support debt service. Projected revenues from the transient-occupancy tax (Sacramento City Code chapter 3.28) must equal or exceed 150% of annual debt service for senior obligations and 115% of annual debt service for subordinate obligations. Projected revenues from a non-rated community facilities district or assessment district must equal or exceed 110% of the sum of annual debt-service and administration costs.

- (C) Enterprise Funds. The City Manager's Office and the City Treasurer's Office shall evaluate the affordability of new-money debt for enterprise funds. Enterprise rate levels must fully cover debt-service requirements and debt-service-coverage ratios as outlined in the applicable bond covenants, as well as the anticipated costs of operations, maintenance, administration, and capital improvement. At the time of debt issuance, the projected net system revenues of the enterprise fund should be sufficient to maintain a coverage ratio equal to or greater than 120% for parity obligations and bonds and 100% for aggregate parity, subordinate, and unsecured obligations. The ability to afford new debt for enterprise operations will be evaluated as an integral part of the City's process for reviewing and setting rates.
- (D) Conduit Financing by a Joint-Powers Authority. The City may agree to the issuance of bonds by various joint-powers authorities (e.g., Association of Bay Area Governments, California Statewide Community Development Authority, California Municipal Finance Authority). When the City is not the issuer of bonds for a project within the City, the City's policy will be to require the issuer to assume full responsibility for issuance and on-going compliance of the bond issue with federal and state laws. When feasible, the City may hold the public hearing required by the Tax Equity and Fiscal Responsibility Act of 1986 (26 U.S.C. § 147(f)(2)) but is not required to do so.
- (E) City-Issued Conduit Financing. In rare instances, the City Treasurer's Office may determine that it is in the City's best interest to issue bonds on behalf of another governmental entity or a 501(c)(3) corporation within the City's boundaries. In these instances, neither the City's general fund nor the City's taxing power will be pledged for repayment of the bonds. In addition, the City will rely on the financial analysis provided by the governmental entity or the 501(c)(3) corporation for purposes of due-diligence review before moving forward on the request to issue debt. The City's preferred method for issuing conduit debt is conduit financing by a joint-powers authority.
- (F) Small-Equipment Lease Financing. The City may move forward with a small- equipment lease financing at the request of City departments after analysis and due-diligence review by the City Manager's Office, the City Department of Finance, and the City Treasurer's Office. Requests from City departments must demonstrate the need (e.g., legal, environmental, cash flow) for small-equipment lease financing, and the City departments must provide realistic, projected drawdown schedules showing that borrowed funds will be spent in accordance with requirements of the Internal Revenue Service (the "IRS"). The City Treasurer's Office will determine whether additional disclosure will be required at the time the financing is entered into and will make the decision based on consultation with the City's disclosure counsel.

3.4 *Capital Expenditure Considerations.* The City will consider the following factors to evaluate pay-as-you-go financing versus debt financing for funding capital expenditures:

(A) Factors favoring pay-as-you-go

- (1) Projected revenues and fund balances are adequate and available to complete the project, or the project can be completed in phases.
- (2) Existing debt levels might adversely affect the City's credit rating or rating outlook.
- (3) Market conditions are unfavorable or present difficulties in marketing the proposed debt.
- (4) The project's useful life is less than five years.
- (5) Debt financing would be the preferred method, but circumstances require delaying the financing.

(B) Factors favoring debt financing

- (1) Current and projected revenues available for debt service are sufficient and reliable so that financings can be marketed with investment-grade credit ratings.
- (2) Market conditions present favorable interest rates and demand for the City financings.
- (3) The project is mandated by federal or state law, and current resources are insufficient or unavailable to fund the project fully within the time required.
- (4) The project is immediately needed to meet or relieve capacity needs or emergency conditions, and current resources are insufficient to fund the project fully within the time required.

## 4. Debt Issuance

### 4.1 *Types and Purposes of Debt*

- (A) Long-Term Debt. Long-term new-money debt may be used to finance the costs of acquiring or improving land, infrastructure, facilities, or equipment if it is appropriate to spread these costs over more than one budget year. Long-term new-money debt may also be used to fund capitalized interest,

costs of issuance, required reserves, and any other financing-related costs that may be legally capitalized. Long-term new-money debt may not be used to fund City operating costs. The final maturity of long-term debt should not exceed 40 years. The following are the types of long-term debt that may be undertaken by the City:

- (1) **Special-Tax Revenue Bonds.** Under the Mello-Roos Community Facilities District Act of 1982, codified at Governmental Code sections 53311 to 53368.3 (the “**Mello-Roos Act**”), the City may use special-tax bonds to finance the construction or acquisition of various public improvements. The Mello-Roos Act provides an efficient means of financing certain public capital facilities and services and promotes economic development in areas that lack sufficient infrastructure, such as infill or brownfield areas. Bonds may be issued to fund capital facilities so long as the estimated useful life of the facilities is at least five years. These bonds must be approved by at least two-thirds of the qualified electors within the CFD.
- (2) **Marks-Roos Bonds.** Under the Marks-Roos Local Bond Pooling Act of 1985, codified at Government Code sections 6500 to 6599.3 (the “**Marks-Roos Act**”), governmental entities, in consort with or as part of a joint-powers authority, may use a “pooled” financing technique for a broad array of public capital improvements. The City has used the Marks-Roos Law to issue refunding bonds for community facilities districts as well as for two redevelopment project areas when new-money debt was issued concurrently. Voter approval is not required.

**Special-Assessment Bonds.** The Improvement Act of 1911 and the Improvement Bond Act of 1915 authorize the City to form assessment districts for imposing special-assessment liens on properties within the districts, with the assessment on each property calculated according to the “special benefit” the property receives from the improvements. The assessments are then used to secure payment of bonds that amortize the improvement costs over a period of years. A majority of the property owners within the district must approve both the formation of the district and the issuance of the bonds. Approval occurs through submission of assessment ballots weighted according to the amount of each property’s proposed assessment. Importantly, for some improvements the “general benefit” may outweigh the “special benefit”; if so, then the usefulness of special-assessment bonds to finance the improvements will be diminished.

- (3) **General-Obligation Bonds.** These bonds may be issued by governmental entities that have the legal authority to levy ad valorem property taxes and other charges at whatever rate and amount is necessary to pay the debt. Under article XVI, section 18, of the

California Constitution, these bonds may only be issued with two-thirds voter approval is required.

- (4) Tax-Allocation Bonds. Until January 2012, the City was authorized to issue tax-allocation bonds or tax-allocation revenue bonds (“**TABs**” or “**TARBs**”) that were secured by a pledge of tax-increment revenues from project areas within a redevelopment agency. Proceeds from TABs and TARBs were used to revitalize blighted and economically depressed areas and promote economic growth. The City is no longer authorized to issue new-money TABs or TARBs unless the City or its related financing authorities are aware of enforceable obligations that need to be met. Only refunding TABs are now authorized, and only the Redevelopment Agency Successor Agency of the City of Sacramento may issue them.
- (5) Certificates of Participation and Lease-Revenue Bonds. These debt instruments are secured by a lease-leaseback arrangement between the City and another public entity. The City uses its general operating revenues (which are not expressly pledged) to pay amounts owed under the lease. The payments are in turn used to pay debt service on lease-revenue bonds issued by a joint-powers authority or on certificates of participation executed and delivered by a trustee. Voter approval is not required because these debt instruments are not subject to the debt limit in article XVI, section 18 of the California Constitution. The City Council must annually appropriate funding for the repayment of debt service associated with these types of debt instruments as part of the approval of the City’s budget.
- (6) Revenue Bonds. These bonds are payable from revenue generated by a City enterprise, such as water and wastewater utilities. Because debt service on revenue bonds is paid solely from enterprise revenues and are not secured by any pledge of tax or general fund revenues, these bonds are not subject to the debt limit in article XVI, section 18 of the California Constitution. Revenue bonds are used for the improvements to the enterprise and are paid by ratepayers that benefit from the service provided by the enterprise.
- (7) State Revolving Fund Loans or Other Similar Debt Instruments. An example is the Infrastructure State Revolving Fund Program, which provides financing to public agencies and non-profit corporations sponsored by public agencies; the loan proceeds are used for a variety of infrastructure and economic-development projects. Often the cost of borrowing through the loan programs is lower than the cost of issuing debt in the public market, but the maximum duration of the loan may be limited. Additionally, the process to obtain a loan may take longer than publicly-issued bonds. Though generally less cost effective than a

loan, bonds may afford financing for projects that have an expedited timeframe.

- (B) Short-Term Debt. Short-term debt may be used as an interim source of funding before the issuance of long-term debt. It may be issued for any governmental purpose for which long-term debt may be issued, including the payment of capitalized interest and other financing-related costs; it may also be used to address legitimate short-term cash-flow requirements during a given fiscal year, so that the City may continue to fund the operating costs of providing necessary public services; and it may be used to bridge the gap in financing before long-term debt is issued to meet the ongoing capital needs of a project or series of projects. The City will not engage in short-term borrowing solely for the purpose of generating investment returns (arbitrage). Short-term debt usually may not exceed five years.
- (1) Tax and Revenue Anticipation Notes (“**TRANS**”). These are short-term notes used to cover cash shortfalls resulting from a mismatch between the timing of revenues and expenditures. The City may issue TRANS when needed to meet general fund cash-flow needs in a fiscal year. TRANS are secured by the property taxes and other revenues received later in the fiscal year. Voter approval is not required. TRANS often must be repaid in the fiscal year in which they are issued to cover short-term cash-flow shortfalls.
  - (2) Bond Anticipation Notes (“**BANS**”). These are short-term interest-bearing notes issued in the anticipation of long-term bond issuances. The City may issue BANS as a source of interim financing when the City Treasurer determines that doing so is prudent and advantageous to the City. Voter approval is not required.
  - (3) Lease-Purchase Financings. These financings may be used for the short-term financing of essential equipment. The term of a lease-purchase agreement is typically less than 10 years but may be as long as 15 years. Under this type of financing, the City and a bank enter into a master lease agreement for the lease-purchase of equipment up to a certain aggregate amount. The City and the bank then enter into separate “schedules of property” or “lease schedules” for each lease-purchase of equipment, and the City Council annually budgets and appropriates an amount sufficient to pay rent for the equipment under lease during that year; the failure to appropriate will result in termination of the lease-purchase agreement. Voter approval is not required.
  - (4) Commercial Paper Notes. These notes serve as a cash-management tool used primarily to provide short-term interim funding of capital

expenditures that will ultimately be funded from a long-term bond or loan. Commercial-paper notes can reduce a project's overall interest costs because only the amount needed for interim funding is borrowed, and interest rates on the interim funding are lower than the rates on the "permanent" funding with long-term bonds or loans. As of the date of this Policy, the City has never issued commercial paper notes, but the need for this type of short-term financing could arise in the future.

- (C) Other Debt. There may be special circumstances when other forms of debt are appropriate; these will be evaluated on a case-by-case basis.
- (D) Refunding. The City Treasurer's Office will periodically review outstanding City Debt to identify refunding opportunities and evaluate the costs and benefits of restructuring or retiring outstanding obligations. Refunding will be considered (within federal tax-law constraints) when it will provide a net economic benefit or when it is needed to achieve City objectives relating to necessary changes in restrictive covenants, call provisions, operational flexibility, tax status, the issuer, debt-service profile, etc. The City may purchase City Debt in the open market for the purpose of retiring the debt when doing so is cost effective.
  - (1) Only one type of refunding transaction is allowed: a "current refunding," which is when outstanding bonds are paid off within 90 days after the proceeds of refunding bonds are deposited into an escrow account with the escrow agent (typically the same entity as the trustee).
  - (2) In general, when the City undertakes a current refunding for net economic benefit, the refunding should produce net-present-value debt-service savings of at least 5%. This 5% threshold is a goal rather than a requirement, as the City may have reason to refund an issue that generates net-present-value savings of less than 5% (e.g., the refunding will eliminate unduly restrictive bond covenants) or conversely aim for a higher targeted minimum level of savings.

4.2 *Public Policy Discussion.* The proceedings to issue debt for projects that are controversial or of high public interest should be conducted with full transparency and public discussion (e.g., through community meetings, public outreach, City Council meetings).

4.3 *Method of Sale.* Except to the extent a competitive process is required by law, the City Treasurer is responsible for determining the appropriate manner in which to offer City Debt to investors. A negotiated sale is preferred because it (A) provides the City more flexibility in determining the structure, time, and date of the sale, which is advantageous in a volatile municipal-bond market; (B) permits the

schedule for the issuance and sale of bonds to be expedited when necessary to meet the City's goals; and (C) affords the chosen underwriter or senior managing underwriter (in the case of an underwriting syndicate) greater opportunity to pre-market the City Debt to potential purchasers, including local investors, before the sale—all of which contributes to the City's goal of achieving the lowest overall cost

of funds. Other methods of sale, such as competitive sale and private placement, may be considered on a case-by-case basis. For example, private-placement debt may be appropriate when pending litigation or other risks or market conditions make a competitive or publicly negotiated sale difficult.

- 4.4 *Pooled Financing.* The City Treasurer is responsible for determining the appropriate use of third-party "pools" to issue City Debt. The current preferred method of sale is a direct issuance by the City led by one senior managing underwriter or co-senior managing underwriters. The appropriateness of pooled financing depends on par amount of bonds to be issued, the complexity of the financing, and the need for greater bond-market penetration (institutional, retail, and high-net-worth individuals).
- 4.5 *Professional Assistance.* The City Treasurer may periodically select and retain service providers (other than bond and disclosure counsel, which the City Attorney's Office selects and retains) as needed to meet legal requirements and provide specialized analytical services in an effort to minimize the costs of City Debt. The City Treasurer will make these selections with the goal of achieving an appropriate balance between service (including experience, professional reputation, and market recognition) and cost. The City Treasurer may select service providers through a sole-source process of his or her choosing unless a competitive or other process is required by law, this Policy, or City Procurement "best practices."

## **5.0 Debt Structure Features**

### **5.1 Debt Repayment**

- (A) **Useful Life.** City Debt must be structured so that the weighted average maturity of the proposed debt is less than or equal to the weighted average economic or useful life of the capital projects or improvements to be financed.
- (B) **Level Debt Service Preferred.** To the extent possible, the structure of debt-service for long-term debt other than special-tax revenue bonds should have combined annual principal and interest payments that remain relatively constant to maturity, i.e., "level debt service." But in some circumstances non-level debt service may be to the City's advantage or is the norm—such as in the case of Special Tax Revenue Bonds where debt service increases by about 2% annually. The City Treasurer's Office will determine the

structure of the debt at the time of borrowing after considering pricing, cash flows, and other relevant factors.

- 5.2 *Credit Quality.* The City should obtain and maintain the highest possible credit ratings when issuing short-term and long-term debt and will only issue bonds, for itself or others, that have a credit rating of “investment grade” or higher.\* The City will, however, consider the issuance of non-rated land-secured bonds issued through assessment districts or community facilities districts, as well as the issuance of other non-rated bonds if circumstances warrant. The City will not seek a rating for bonds unless the City Treasurer’s Office determines that the bonds are likely to receive a rating of BBB or higher.
- 5.3 *Credit Enhancement.* The City Treasurer’s Office will work with the City’s municipal advisor and underwriter (or senior managing underwriter if there is an underwriting syndicate) of proposed City Debt to analyze the costs and benefits of obtaining bond insurance on a maturity-by-maturity basis for the debt.
- 5.4 *Non-Cash Reserve and Reduced Reserve.* The City Treasurer’s Office will work with the City’s municipal advisor and the underwriter of proposed City Debt (or senior managing underwriter if there is an underwriting syndicate) to analyze the costs and benefits of having no reserve, obtaining a surety reserve policy, or modifying the three-prong reserve test (26 C.F.R. § 1.148-2(f)(2))—for example, to 50% of maximum annual debt service or 10% of outstanding principal.
- 5.5 *Fixed-Rate Debt.* The City’s preferred interest-rate mode is fixed rate.
- 5.6 *Variable-Rate Debt.* The City may issue variable-rate debt—i.e., debt that pays interest at a rate that varies according to a pre-determined formula or specified index or results from a periodic remarketing of the debt. Although the City might benefit from variable-rate debt in some transactions, issuing variable-rate debt passes an unknown obligation and risk to future City Councils.
- 5.7 *Derivatives.* Derivatives might be appropriate for certain City borrowing programs. For example, derivatives may be used in connection with the issuance of variable-rate debt. The City Treasurer’s Office will evaluate the use of derivatives on a case by-case basis to determine whether the potential benefits are sufficient to offset any potential costs and whether the derivatives are consistent with state law and financially prudent.
- 5.8 *Call Provisions.* The City Treasurer’s Office will determine the call provisions for City Debt at the time of pricing, mindful that call provisions may affect the price of

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\* For Moody’s Investor Service, “investment grade” means a rating of **P-3** or higher for short-term debt and **Baa3** or higher for long-term debt. For Standard & Poor’s, “investment grade” means a rating of **A-3** or higher for short-term debt and **BBB-** or higher for long-term debt. And for Fitch Ratings, “investment grade” means a rating of **F-3** or higher for short-term debt and **BBB-** or higher for long-term debt.

the bonds and the interest of potential investors. The City's preferred structure is early optional redemption at par in order to maintain flexibility for future refunding opportunities. The City will not issue non-callable debt unless it is legally required or unless market conditions dictate otherwise; non-callable debt should not be issued solely to generate additional debt-service savings.

- 5.9 *Bond Size.* Unless otherwise directed by the City Treasurer in consultation with the City Manager, the minimum amount the City will finance through the issuance of bonds is \$10 million unless circumstances justify a lower amount. The City may pursue other financing mechanisms—such as pay-as-you-go financing, inter-fund borrowing, lines of credit, and lease financing—for debt less than \$10 million. In the case of Special Tax Revenue Bonds, special circumstances may exist that warrant the City Treasurer's consideration of the developer's request to issue bonds in an amount less than \$10 million (e.g., if the bonds are for an infill or brownfield development project). The City Treasurer will determine whether to move forward with a small debt financing.

## **6. Debt Administration and Regulatory Compliance**

- 6.1 *Policies and Procedures for Post-Issuance Compliance.* The City Treasurer's Office must maintain written policies and procedures that require compliance with bond covenants and with federal, state, and local laws and regulations. The policies and procedures must address continuing-disclosure requirements; arbitrage-rebate requirements, private-use limitations, other tax-compliance requirements; levy enrollment and administration; delinquency and foreclosure management; debt service and other payments; and permitted investments and uses of bond proceeds.
- 6.2 *Arbitrage Compliance.* The City Treasurer's Office is responsible for keeping all records needed to comply with federal arbitrage requirements for tax-exempt debt.
- (A) For each bond issue, the City Treasurer's Office will pay required rebate amounts, if any, no later than 60 days after each five-year anniversary of the issue date of the bonds and no later than 60 days after the last bond of the issue is redeemed.
- (1) During the construction of each capital project financed with bond proceeds, the City's arbitrage consultant will typically prepare an interim arbitrage-rebate report at least once every 12 months until all proceeds deposited in the project fund have been expended; if, however, the proceeds remaining in the project fund are equal to or less than 5% of the proceeds deposited, then the City Treasurer's Office may have the arbitrage consultant prepare the interim arbitrage-rebate reports according to the timeframe required by IRS regulations.

- (2) After the construction period, the City's arbitrage consultant will prepare an interim arbitrage-rebate report on each five-year anniversary of the issue date of the bonds, or more frequently if warranted.
- (B) During the term of each issue plus three years, the City Treasurer's Office will retain copies of all arbitrage reports, records relating to the use and investment of tax-exempt proceeds, documentation of private use, and other relevant documents associated with the issue. If the issue is refunded, then the retention period for the refunded issue is the life of the refunding issue plus three years. Training may be provided for all personnel working on the IRS's post-issuance-compliance process. If any potential violations to complying with federal tax laws are discovered, then the City Treasurer or City Debt Manager, after consulting with the City Attorney's Office, will contact bond counsel and determine what if any corrective actions are needed (e.g., entry into the Voluntary Closing Agreement Program with the IRS).
- (C) The City Treasurer or City Debt Manager will periodically review the City's post-issuance compliance policies and procedures and will implement revisions as appropriate after consulting with the City Attorney's Office and, if needed, bond counsel.
- (D) When bonds (the refunding bonds) are issued to refund outstanding bonds (the refunded bonds), all remaining proceeds of the refunded bonds—e.g., all amounts remaining in the project fund, reserve fund, and other accounts, plus accrued interest—will be considered for purposes of IRS regulations to be "transferred proceeds" of the refunding bonds and, as such, will be subject to the arbitrage calculations for the refunding bonds. In addition, if the transferred proceeds represent more than 5% of the original deposit in the project fund of proceeds from the refunded bonds (see section 6.2(A)(1) above), then interim arbitrage calculations must be performed on an annual basis until the balance of the transferred proceeds is less than 5% of the original deposit at which point the arbitrage calculations will be completed every five years from the issuance date of the refunding bonds.

6.3 *Use of Proceeds from Tax-Exempt or Taxable Debt and of Assets Financed with Tax-Exempt Debt.* The City Treasurer's Office in conjunction with other City departments is responsible for the following:

- (A) Monitoring the use of proceeds from tax-exempt and taxable debt and the use of assets financed or refinanced with tax-exempt debt throughout the term of the debt to ensure compliance with all covenants and restrictions in the documents relating to the debt and to ensure that the proceeds are directed to the intended use.

- (B) Consulting with the City Attorney's Office and tax counsel in reviewing contracts or other arrangements involving use of assets financed or refinanced with tax-exempt taxable debt to ensure compliance with all covenants and restrictions in the documents relating to the debt.
- (C) Maintaining records for any contracts or other arrangements involving the use of assets financed or refinanced with tax-exempt or taxable debt.
- (D) Maintaining internal-control procedures related to the management and disbursement of proceeds, such as procedures requiring that proceeds are either (1) held by a third-party trustee or fiscal agent, which will disburse the proceeds to, or upon the order of, the City in accordance with one or more written requisitions; or (2) held by the City and deposited and accounted for in a separate fund or account, with withdrawals and expenditures carefully documented.
- (E) Consulting promptly with the City Attorney's Office and tax counsel to develop a course of action to remediate any identified existing or potential violations of restrictions on the use of tax-exempt or taxable proceeds or the use of assets financed or refinanced with tax-exempt or taxable proceeds.

## **Attachment A**

### **Supplemental Policies**

*City of Sacramento Policies and Procedures for Use of Special Assessment and Mello-Roos Community Facilities District Financing for Infrastructure, Public Facilities, Programs and Services* (Adopted on June 29, 1993, by Resolution No. 93-381, updated on August 9, 1994, by Resolution 94-491 and on May 15, 2012)

*City of Sacramento Development Fee Financing Program for Commercial, Industrial and Residential Development Projects* (Adopted January 1997 by Resolution No. 97-002)

*California Debt and Investment Advisory Commission Appraisal Standards for Land-Secured Financings* CDIAC 04-07 (Adopted in May 1994 and revised in July 2004)

*City of Sacramento Debt-Management Policy – Supplemental Policy on Disclosure* (Adopted on June 2, 2011, by Resolution No. 2011-322 and updated on February 7, 2017, by Resolution No. 2017-0046; on June 19, 2018, by Resolution No. 2018-0251; and on April 23, 2019, by Resolution No. 2019-      )

**CITY OF SACRAMENTO  
DEBT-MANAGEMENT POLICY  
Supplemental Policy on Disclosure**

**Adopted by the City Council on April 23, 2019**

**1. Introduction**

1.1 This Supplemental Policy on Disclosure governs the City's discharge of its disclosure obligations related to debt (including lease-revenue obligations) issued by the City or by related entities such as the Sacramento City Financing Authority, the Sacramento Public Financing Authority, and the Redevelopment Agency Successor Agency.

(A) The City and its related entities issue obligations in the public capital markets from time to time. When bonds are issued, the City, whether acting for itself or for a related entity, is obligated to disclose all material information in compliance with federal securities laws, including the Securities Act of 1933, the Securities and Exchange Act of 1934, Rule 10b-5 of the Securities and Exchange Commission ("**SEC**"), and Rule 15c2-12 of the SEC as amended. California Governmental Code section 8855 requires certain disclosures to the California Debt and Investment Advisory Commission.

(B) Incomplete, inaccurate, or misleading disclosure might have material financial consequences for the City and City officers and employees. For example:

- The SEC could bring civil actions charging that disclosure was negligent, reckless, or intentionally fraudulent; in addition, the SEC could refer cases to U.S. Department of Justice for criminal prosecution
- The SEC could impose cumbersome procedures and oversight on the City as conditions for settling civil actions.
- The City could suffer adverse publicity, which might reduce market access.
- The credit ratings on the City's debt could be downgraded, resulting in increased costs in future issuances
- City officials could face personal fines for violations of securities laws.

(C) Sound disclosure practices can provide both tangible and intangible benefits, including the following:

- Enhanced credibility in the municipal-bond marketplace

- Transparency with rating agencies, investors, and prospective investors
- Improved decision making for prospective investors
- Increased numbers of investors who purchase bonds
- Improved liquidity for bonds
- Demonstrated City commitment to providing timely disclosure to investors, credit-rating agencies, and the public
- The potential for a lower overall cost of borrowing

1.2 Scope of Policy. This policy applies to City information and documents, including the following, that investors are reasonably expected to be used when deciding whether to invest in the City's bonds:

- (A) Initial-disclosure documents, i.e., preliminary and final official statements
- (B) Continuing-disclosure documents, i.e., annual financial information and event notices
- (C) In certain circumstances, other information such as presentations in investor conferences

## 2. **Governing Authority and Responsibility**

2.1 Authority. Either the City Treasurer or the Debt Manager within the City Treasurer's Office (the "**Debt Manager**") shall manage the City's disclosure program in conformance with federal, state, and local requirements, including the Sacramento City Code and the City's Debt-Management Policy.

2.2 Point of Contact. Either the City Treasurer or the Debt Manager shall be the City's point of contact for disclosure, primarily responsible not only for developing and distributing information but also for determining the materiality of information.

2.3 Responsibility.

- (A) The City Treasurer or the Debt Manager shall oversee all aspects of disclosure. As such, the City Treasurer or the Debt Manager shall review the form and content of the City's documents and materials prepared, issued, or distributed in connection with the City's disclosure obligations relating to its debt. Those documents and materials include preliminary and final official statements; annual financial information and event notices (see Exhibits A

and B) filed with Electronic Municipal Market Access (“EMMA”), the Municipal Securities

Rulemaking Board’s disclosure portal; voluntary filings with EMMA; and other communications that investors are reasonably expected to use in making investment decisions.

- (B) Along with the City Treasurer and his or her staff, the City Attorney and City Manager shall serve as integral members of the financing team, each responsible, as appropriate, for ensuring and certifying to the accuracy of information released to the market.
- (C) The City is responsible for the content of its disclosure documents. The City Treasurer, City Attorney, and City Manager shall ensure that the use of outside professionals for their respective areas of expertise is appropriate and that reliance upon outside professionals is reasonable and not excessive.
- (D) The City Treasurer or the Debt Manager shall ensure that subject-matter experts, including City staff with relevant knowledge or expertise, are involved in developing and periodically reviewing and updating disclosure documents. For example, when obligations are secured by particular revenues such as water or sewer fees, City staff who are knowledgeable about the relevant utility must be involved.
- (E) The City Treasurer or the Debt Manager, in collaboration with the City Attorney, shall arrange for the engagement of disclosure counsel to assist the City in complying with disclosure requirements. The City Treasurer or the Debt Manager shall also arrange for the periodic training of City officers and employees regarding their disclosure obligations under federal securities laws.
- (F) City officers and employees serving as financing-team members are responsible for reviewing and commenting on draft documents. As part of their review, they must determine whether all material information—including confidential or politically sensitive information—has been included and is both accurate and relevant.
- (G) City officers and employees and the officers and employees of related entities shall promptly provide all information, assurances, and certifications the City Treasurer requests, in his or her sole discretion, for compliance with federal securities laws. The City Manager and City Attorney shall require prompt and full responses to those requests.

### **3. Certifications**

- 3.1 In connection with the City Council's approval of preliminary or final official statements for publicly issued debt, an appropriate City officer or employee shall certify in writing, to the best of his or her knowledge, that the documents do not make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.
- 3.2 The City Treasurer or the Debt Manager shall provide offering documents such as preliminary official statements to appropriate City officials (which may include the Mayor and City Council, City Manager, City Attorney, and other City officers and employees) in such a manner as to allow timely, informed decisions regarding disclosure.

## **Exhibit A**

### **Events Requiring the Filing of Notice with EMMA Debt Issued before February 27, 2019**

1. Principal and interest payment delinquencies
2. Non-payment related defaults, if material
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or material events affecting the tax status of the security;
7. Modifications to rights of security holders, if material
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the obligated person;
13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to such actions, other than pursuant to its terms, if material;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

## **Exhibit B**

### **Events Requiring the Filing of Notice with EMMA Debt Issued on or after February 27, 2019**

1. Principal and interest payment delinquencies
2. Non-payment related defaults, if material
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or material events affecting the tax status of the security;
7. Modifications to rights of security holders, if material
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the obligated person.
13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to such actions, other than pursuant to its terms, if material;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material;
15. Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.