

**CITY OF SACRAMENTO**  
**Debt Management Policy**  
**As Amended June 2, 2011**

**I. Introduction**

A. The City of Sacramento has a long history of issuing multiple types of debt and working with various City departments, residents, businesses, and other government agencies to derive the most effective financing solution for all involved. The purpose of a Debt Management Policy (Policy) is to articulate the guiding principles for City debt issuance and debt management before consideration of specific action. This Policy sets forth certain equally important objectives for the City and establishes overall parameters for responsibly issuing and administering the City's debt.

- Minimize debt service and issuance costs
- Maintain access to cost-effective borrowing
- Achieve and maintain highest practical credit rating
- Full and timely repayment of debt
- Maintain full and complete financial disclosure and reporting
- Ensure compliance with state and federal laws and regulations.

B. Scope of Application – These policies establish the parameters within which the City of Sacramento, or the Sacramento City Financing Authority on behalf of the City (hereinafter referred to as City), may issue debt. Additionally, these policies apply to debt issued by the City on behalf of assessment, community facilities, or other special districts, as well as conduit debt.

C. The Policy is intended to guide the City regarding its debt obligations in the course of its customary practices. However, from time to time, certain compelling circumstances may arise which would cause the City to deviate from the policies herein. The Council may consider deviations from the stated policies where compelling (or extraordinary) circumstances exist and City Treasurer's Office recommends the same.

**II. Governing Authority and Responsibility**

A. Authority – The City's debt program for all City funds shall be operated in conformance with applicable federal, state, and other legal requirements, including authorizing Sacramento City Codes.

B. Delegation of Authority – The City Council assigns responsibilities to the City Treasurer's Office for managing and coordinating all activities related to the structure, issuance and administration of all long- and short-term debt obligations.

No debt obligations shall be presented to the City Council for their authorization without a joint assessment by and mutual recommendation of the City Manager's Office and City Treasurer's Office. Departments planning debt-financed capital programs or equipment acquisitions shall work in close coordination with City Treasurer's Office and the City Manager's Office to provide information and otherwise to facilitate the issuance and on-going administration of debt.

In preparation of bond issuance documents and other related on-going matters the following roles shall serve as guidance.

1. City Treasurer:
  - responsible for structure, issuance, and administration
  - maintaining relationships with rating agencies, investors, etc.
  - Role in document preparation and review
2. City Manager and Delegated Departments:
  - project identification and priority
  - source(s) of debt service
  - sources for project operation and maintenance
  - Role in document preparation and review
3. City Attorney
  - Independent check on adherence to law and regulations
  - Protect interests of City
  - Role in document preparation and review

C. Point of Contact -- The City Treasurer shall be responsible for maintaining good communication with rating agencies, investors, and other debt related service providers about the City's financial condition and will follow a policy of full disclosure.

D. The City Council, as a member of joint powers authorities, such as the Sacramento Regional Arts Facility Financing Authority, or member of another governing agency (e.g. Sacramento Area Flood Control Agency, Sacramento Transportation Authority), should take these policies into account when considering the issuance of debt that may impact the City .

E. Policy Review and Approval – The City Council has reviewed these policies. Any amendments to these policies shall be approved by the City Council. The City Treasurer's Office shall conduct an annual review of this policy and bring forward to City Council any amendments deemed necessary and appropriate.

F. Supplemental Policies – Supplemental policies, tailored for the specifics of the certain types of financings are referenced in these policies as Attachment A. In the event additional policies are adopted, an amended version of Attachment A reflecting such policies shall be attached to these policies. These supplemental policies may address, but are not limited to the City's general obligation, lease revenue, enterprise, redevelopment, or land-secured financings, and the use of various financing instruments such as variable rate debt and derivatives.

### **III. Capital Financing and Debt Management**

The City Council recognizes that any new debt obligation will have an impact on the long-term affordability of all outstanding and planned debt, as well as budgetary impacts associated with the maintenance and operating costs of debt-financed facilities.

A. Debt Capacity – the City will keep outstanding debt within the limits of the City Code’s applicable law and regulations, specific bond covenants, and at a level consistent with these policies.

B. Feasibility – To insure its consistency with respect to the City’s debt management objectives, no debt obligations shall be undertaken or authorized without an assessment and recommendation of the City Manager’s Office and City Treasurer’s Office.

1. General Fund / Special Revenues - In conjunction with the City Treasurer’s Office, the Department of Finance shall cause an internal feasibility analysis to be prepared for each long-term financing that analyzes the impact on current and future budgets for debt service and operations. This analysis will also address the reliability of revenues to support debt service.

2. Enterprise Funds -- Evaluating the affordability of new debt for enterprise funds, enterprise rate levels must fully cover debt service requirements, as well as, operations, maintenance, administration and capital improvement costs. The ability to afford new debt for enterprise operations will be evaluated as an integral part of the City’s rate review and setting process.

3. Redevelopment Authority -- The City may consider the use of its debt capacity for legally allowable capital projects by public redevelopment authorities or other special purpose units of government.

4. Conduit -- The City may agree to the issuance of bonds by the Association of Bay Area Governments (“ABAG”), California Statewide Community Development Authority (“CSCDA”) or a similar issuing conduit if the City is not making a loan or grant to the Project. Where the City is not the issuer of bonds for a Project within the City, it shall be the City’s policy to require the issuer to assume full responsibility for issuance and on-going compliance of the bond issue with federal tax and state law and regulations. Where feasible, however, the City shall seek to hold the Tax Equity and Fiscal Responsibility Act of 1986 (TEFRA) Hearing.

C. Capital Expenditure Considerations – The City will consider the following factors to evaluate pay-as-you-go versus debt financing to fund capital expenditures.

1. Factors favoring Pay-as-you-Go:

- a) Current projected revenues and adequate fund balances are available or project phasing can be accomplished.
- b) Long-term total costs are lower due to the avoidance of interest expense.
- c) Existing debt levels adversely affect the City's credit rating.
- d) Market conditions are unfavorable or present difficulties in marketing.

2. Factors favoring Debt Financing:

- a) Current and projected revenues available for debt service are sufficient and reliable so that financings can be marketed with investment grade credit ratings.
- b) Market conditions present favorable interest rates and demand for the City financings.
- c) A project is mandated by state or federal requirements, and current resources are insufficient or unavailable fully to fund the project(s).
- d) The project is immediately required to meet or relieve capacity needs or emergency conditions and current resources are insufficient or unavailable.

#### **IV. Debt Issuance**

##### **A. Purposes of Debt Issuance**

1. Long-term Debt – Long-term debt may be used to finance the acquisition or improvement of land, infrastructure, facilities, or equipment for which 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 shall not be used to fund City operating costs.

2. Short-term Debt – Short-term debt will be considered as an interim source of funding in anticipation of long-term debt. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs.

Short-term debt is also appropriate to address legitimate short-term cash flow requirements during a given fiscal year to fund operating costs of the City to

provide necessary public services. The City will not engage in short-term borrowing solely for the purpose of generating investment returns.

3. Refunding – Periodic reviews of outstanding debt will be undertaken to identify refunding opportunities. Refunding will be considered (within federal tax law constraints) when there is a net economic benefit of the refunding. Non-economic refundings may be undertaken to achieve City objectives relating to changes in covenants, call provisions, operational flexibility, tax status, issuer, or the debt service profile, etc. The City may purchase its bonds in the open market for the purpose of retiring the obligation when the purchase is cost effective.

B. Public Policy Discussion – Those projects involving the issuance of debt that may be controversial or of high public interest should be subject to public discussion through community meetings, outreach, and / or City Council meetings, etc.

C. Method Of Sale - Except to the extent a competitive process is required by law, the City Treasurer shall be responsible for determining the appropriate manner in which to offer any securities to investors. The City’s preferred method is negotiated sale. However, other methods such as competitive sale and private placement may be considered on a case-by-case basis.

D. Pooled Financing – The City Treasurer on a case-by-case basis shall be responsible for determining the appropriate use of third party “Pools” to issue City debt obligations. Preferred method is direct issuance by the City.

E. Professional Assistance - The City Treasurer shall have the authority to periodically select service providers as necessary to meet legal requirements and minimize City debt costs. The City Treasurer will make such selections with the goal of achieving an appropriate balance between service (including experience, professional reputation, and market recognition) and cost. The City Treasurer is authorized, but not required, to select such services providers through sole source selection process of his or her choosing unless a competitive or other process is specifically required by law or these policies.

## V. **Debt Structure Features**

### A. Debt Repayment

1. Useful Life – The City shall structure its debt issues so that the maturity of the debt issue is consistent with the economic or useful life of the capital project to be financed.

2. Back loading – To the extent possible, long-term debt shall not be back loaded. The structure of the debt shall be a factor of pricing and cash flow

determined on a case-by-case basis by the City Treasurer at the time of borrowing.

- B. Credit Quality – The City seeks to obtain and maintain the highest possible credit ratings when required for issuing short- and long-term debt.
- C. Fixed-rate Debt – Fixed-rate debt shall be the preferred method of pricing.
- D. Variable-rate Debt – The City may choose to issue debt that pays a rate of interest that varies according to a pre-determined formula or index or results from a periodic remarketing of the debt. There may be situations in which the City will benefit from variable rate debt, it must be acknowledged, however, that issuing variable rate debt passes an unknown obligation onto future City Councils.
- E. Derivatives – Derivative products may have application to certain City borrowing programs. The City Treasurer shall evaluate the use of derivative products on a case by-case basis to determine whether the potential benefits are sufficient to offset any potential costs and are consistent with state statutes and financial prudence.
- F. Call Provisions – The timing for when bonds are callable varies and is determined at time of pricing. The City’s preferred structure is to negotiate for optional redemption at par in order to maintain flexibility in the future. The City shall endeavor not to issue non-callable debt except to the extent it is legally required and / or market conditions dictate otherwise; non-callable debt should not be issued strictly to generate additional price savings.

**VI. Debt Administration**

- A. Post Issuance Compliance – The City Treasurer’s Office shall maintain written directives and procedures outlining required actions to ensure compliance with local, state, and federal regulations. Such directives should include: Continuing Disclosure, Arbitrage Rebate, Private Use Limitations, Other Tax Compliance Requirements and Permitted Investments of bond proceeds.
- B. Refunding – The City Treasurer’s Office will conduct periodic review of outstanding debt to identify refunding opportunities.

**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 June 29, 1993 [Resolution No. 93-381] / Updated August 9, 1994 [Resolution 94-491]

City of Sacramento - Development Fee Financing Program for Commercial, Industrial and Residential Development Projects – Adopted January 1997 [Resolution No. 97-002]

California Debt and Investment Advisory Commission - Appraisal Standards for Land-Secured Financings - Revised July 2004 [CDIAC #04-07]

City of Sacramento – Disclosure Policy – Adopted June 2, 2011 [Resolution No. 2011-322]

CITY OF SACRAMENTO  
Debt Management Policy  
Supplemental Policy Statement  
**Disclosure**

**I. Introduction**

A. The purpose of this Supplemental Policy – Disclosure is to set forth policies and principles of the City’s disclosure obligations related to securities issued by the City and related entities. The City issues securities in the public capital market. When bonds are issued, the City has an obligation to disclose all material information and to meet certain standards in compliance with federal securities laws. These include but are not limited to the Securities Act of 1933 – Anti-Fraud, the Securities and Exchange Act of 1934, the Securities and Exchange Commission (SEC) Rule 10b5, and SEC Rule 15c-2-12.

The consequence of incomplete, inaccurate or misleading disclosure could have significant financial impacts on the City and on individual elected officials, officers, and staff. These actions include, but are not limited to:

- Securities and Exchange Commission (SEC) Investigation – SEC has the power to bring civil actions or refer to Justice Department for criminal action. Levels of culpability include: negligence, recklessness, and intent to defraud (“scienter”).
- Requirement to impose cumbersome procedures and oversight to settle SEC actions.
- Adverse publicity to the City – reduced market access.
- Rating Downgrades, which could potentially trigger costly mitigation on bond issues.

The benefits of sound disclosure practices can have both tangible and intangible affects:

- Enhancement of credibility in the marketplace.
- Foster liquidity for the securities.
- Demonstrate a solid disclosure track record that will be viewed favorably by investors, credit rating agencies, and the public.

B. Scope of Application – This policy is consistent in its application with the City’s Debt Management Policy. Additionally, the policies herein apply to all documents and information that are reasonably expected to reach investors/securities market, including:

- Initial disclosure,
- Continuing disclosure (annual and material events), and
- Other information (audits, budgets, certain press releases, web site postings, financial presentations, etc.)

C. Definitions

*Material* (Supreme Court excerpt) – a statement or omission is material

- “if there is a substantial likelihood that a reasonable [not “any”] investor would [not “could”] consider it important [not interesting”] in making the decision to purchase or sell the securities.”
- “there is substantial likelihood that having the information would have been viewed by the reasonable investor as having significantly altered the total mix of information available.”

## **II. Governing Authority and Responsibility**

A. Authority – The City’s disclosure program shall be managed in conformance with applicable federal, state, and other legal requirements, including Sacramento City Codes.

As provided for in Section II.F. of the City’s Debt Management Policy, this Supplemental Disclosure Policy augments the City’s Debt Management Policy, as such all provisions of the Debt Management Policy apply only as to specifics related to disclosure compliance. In the event of any conflicts between the Debt Management Policy and the Supplemental Disclosure Policy, the Debt Management Policy shall prevail.

B. Point of Contact – The City Treasurer shall be designated as the primary party responsible for the development, distribution, and determination of the materiality of information.

C. Responsibility

1. As the primary Point of Contact, it shall be the responsibility of the Office of the City Treasurer to oversee all aspects of disclosure. As such, the Office of the City Treasurer is responsible for reviewing 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 securities; to include but not limited to: preliminary and final official statements, annual continuing disclosure reports, material event notices and other voluntary filings to the Municipal Securities Rulemaking Board disclosure portal Electronic Municipal Market Access (EMMA), press releases, rating agency presentations, web-site postings, investor presentations, and other communications reasonably expected to reach investors or the securities markets.

2. Along with the City Treasurer, the City Attorney, and City Manager shall serve as integral members of the financing team, each, as appropriate, responsible for ensuring and certifying to the accuracy of the information released to the market.

3. 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 reliance upon such expertise is reasonable and not excessive.

4. The Office of the City Treasurer shall ensure that subject matter experts are involved in the development of disclosure documents.

5. The Office of the City Treasurer shall be responsible for arranging training for City staff, officials, City Council members, and the Mayor regarding their obligations relating to disclosure matters under federal securities laws.

a. The City Manager and City Attorney shall ensure the attendance at such training of those persons for whom the City Treasurer recommends such training

6. City officers and staff serving as financing team members have the responsibility to review and provide input on draft documents. Such review shall take into consideration that all material information is included, accurate, and relevant. Politically sensitive and confidential considerations are not exceptions to disclosure.

7. Officers and employees of the City and related entities shall promptly provide such information, assurances, and/or certifications as the City Treasurer, in his or her sole discretion, may request in order to assure compliance with federal securities laws.

a. The City Manager and City Attorney shall ensure participation and compliance with requests of those persons for whom the City Treasurer deems necessary to ensure good disclosure practices.

### **III. Certifications**

A. In connection with the approval of offering documents for securities by the City Council, the City Treasurer, City manager, and City Attorney each shall certify in writing to the City Council that to the best of his or her knowledge, such 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 the light of the circumstances under which they were made, not misleading. In the event the City Manager or City Attorney, or City Treasurer is unavailable, an authorized designee may make the certification required by this section.

B. The Office of the City Treasurer shall ensure offering documents are provided to the City Manager, City Attorney, City staff, and the Mayor / City Council, as appropriate, to allow timely decisions regarding disclosure.