

**CITY OF SACRAMENTO
DEBT-MANAGEMENT POLICY**

Adopted by the City Council on June 1, 2021

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 government agencies to achieve the most-effective financing solutions for necessary capital projects and capital improvements. Debt issuance is one way of financing these projects and improvements 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 it 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 issuer-credit ratings.
 - (D) Balance pay-as-you-go financing with debt financing.
 - (E) Ensure full and timely repayment of debt.
 - (F) Maintain full financial and non-financial disclosure and reporting with respect to debt and associated credit ratings.
 - (G) Ensure compliance with federal, state, and local laws and regulations.
 - (H) Promote the City’s best interests and protect the City’s financial stability when deciding whether to approve debt and how to structure the debt.
 - (I) Maintain internal-control procedures to ensure that the proceeds of each debt issuance are directed to the intended uses.
 - (J) Increase transparency to debt stakeholders and consistency in debt decision making.
- 1.3 *Scope of Application.* This Policy applies to debt issued 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 the Debt Manager within the City Treasurer’s Office (the “**Debt Manager**”), to make an exception to this Policy. Certain obligations of the City—such as Other Post-Employment Benefits and debt not involving the issuance of bonds or other long-term obligations—are not subject to this Policy.

2. Governing Authority, Points of Contact, 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 City Charter and the City Code, and the various covenants of the City’s outstanding debt 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 are responsible for maintaining communication to the bond market on the City’s behalf, with a policy of full and timely disclosure. This includes communication with rating agencies, investors, and other debt-related service providers about the City’s financial condition; the financial condition of enterprise funds that secure revenue bonds; and the relevant financial information of community facilities districts or assessment districts that secure special-tax or assessment bonds, as applicable. As necessary, the City Treasurer or the 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 recommendation by the City Manager’s Office and the City Treasurer’s Office, except as follows: bonds to be issued on behalf of community facilities districts or assessment districts may be presented to the City Council for authorization by the City Treasurer’s Office without a joint assessment and recommendation. 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 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 4.6, “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 the investment of debt proceeds and bond-reserve funds;
 - (7) 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
 - (8) conducts periodic reviews of this Policy and brings forward to the 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 multi-year capital-improvement program;
 - (2) identifies sources of funds for payment 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 debt proceeds to comply with arbitrage requirements, private-activity analysis, and annual reporting requirements; and
 - (7) notifies the City Treasurer’s Office before the City enters into (a) any agreements that qualify as “debt obligations” under SEC Rule 15c2-12, such as loans from non-City lenders, equipment leases, and grants; and (b) any amendments of such loans, leases, and grants.
- (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 to assist with debt financing (e.g., bond counsel, disclosure counsel);
 - (3) informs the City regarding legal risk;
 - (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 it authorizes the issuance or incurrence of City Debt;
 - (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.* Except for debt issued on behalf of community facilities districts or assessment districts, new-money debt will affect the long-term affordability of all outstanding and planned new-money debt of the same credit type; 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 financing a planned project or purchase, the City Council must consider (1) the total of all outstanding debt, including overlapping debt and the planned new-money debt; (2) the City’s needs for special projects that benefit City constituents; (3) any feasibility report or analysis that has been prepared for the financing in accordance with section 3.3(A) or 3.3(B) below; and (4) whether issuing debt to finance the planned project or purchase will necessitate reductions in the number and types of programs and services the City provides or reductions in the number of City employees.
- (B) Additionally, the necessary maintenance and operating costs of debt-financed projects will constrain 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.* The City's ability to issue new-money debt is constrained by federal and state laws and regulations, the City Charter and the City Code, and the covenants of existing 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, with assistance by one of the City's underwriters and one of the City's municipal advisors, 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 the 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 that will be supported by the general fund, an internal feasibility analysis (formal or informal) of the effect on current and future budgets and the City's overall credit ratings of the debt and the costs of operating the financed capital projects. This analysis may be performed formally or informally and must also address the reliability of revenues to support debt service. Total annual debt service for all general-fund bonds and lease-revenue bonds, in each year they are outstanding, must not exceed 6% of annual budgeted general-fund revenues net of revenues that City departments generate by providing services directly chargeable to City residents and businesses. Examples of such department revenues include the Fire Department's advanced life-support fee, the Police Department's alarm-permitting fee, and the Community Development Department's building permit and general plan fees. See the [City Fee Database](#).
- (B) Special Revenues. In conjunction with the City Treasurer's Office, the City's Department of Finance shall prepare, for each long-term financing that will be supported by special revenues, an internal feasibility analysis (formal or informal) that identifies the effect of both the financing and the operating costs of the financed capital projects on the City's current and future budgets and the City's overall credit ratings. 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 175% of annual debt service for senior obligations and 115% of annual debt service for subordinate obligations. Projected revenues from a community facilities district must equal or exceed 110% of the sum of annual debt-service and administration costs in each year the debt is outstanding.
- (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 (including estimated debt service of the proposed new-money debt) and debt-service-

coverage ratios as outlined in the applicable debt covenants, as well as the anticipated costs of operating, maintaining, and administering the capital improvements financed by the debt. 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 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 for utilities services.

- (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 1982 (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 debt 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 other funds, nor the City's taxing power will be pledged for repayment of the debt. 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 Attorney's Office and 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 ratings or ratings 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's financings.
- (3) The project is mandated by federal or state law, by court or administrative order, or by a settlement related to a lawsuit or administrative action, 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 only to finance capital improvements, such as the costs of acquiring or improving land, infrastructure, facilities, or equipment, and only 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 or to fund services or programs. 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 Government 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 6584 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 Act 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 that are subject to the assessment 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) **Property and Business Improvement District Bonds.** Under the Property and Business Improvement District Law of 1994, codified at Streets and Highways Code sections 36600 through 36671, bonds may be issued to finance capital improvements with repayment of the bonds from assessments levied on the real property or businesses that benefit from the improvements financed.
- (5) **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.

- (6) Tax-Allocation Bonds. Until January 2012, the City was authorized to issue new-money tax-allocation bonds or tax-allocation revenue bonds (“**TABs**” or “**TARBs**”) that were secured by a pledge of tax-increment revenues from project areas managed by 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 able 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.
- (7) 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 rent owed under a 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 payment of debt service associated with these types of debt instruments as part of the approval of the City’s budget.
- (8) 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 is 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.
- (9) 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 final maturity of the loan may be limited. Additionally, the process to obtain a loan may take considerably longer than publicly issued bonds. Though generally less cost effective

than a loan, bonds may afford financing for projects with a need for expedited schedules.

- (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 without voter approval 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, and they typically must be repaid within 13 months after issuance.
 - (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 and the potential acquisition by the bank of the financed equipment. 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 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) Tax-exempt bonds are allowed only for a “current refunding,” which is when outstanding bonds are paid off within 90 days after the proceeds of the 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 reasons to refund an issue that generates net-present-value savings of less than 5% (e.g., the refunding will eliminate unduly restrictive debt covenants) or conversely aim for a higher targeted minimum level of savings.
 - (3) The City may also issue taxable bonds to advance refund tax-exempt bonds with an optional redemption date more than 90 days after the proceeds of the taxable bonds are available. Whether the City moves forward with an advance refunding will depend on several factors, and the City Treasurer’s Office will work with one of the City’s municipal advisors to evaluate advance-refunding scenarios. In general, the goal will be a net-present-value savings of at least 5%, but this is not required.
 - (4) When, during periods of economic distress, the City Council determines that annual debt service (i.e., principal and interest payments) for an outstanding issue of bonds might exceed available revenues, the City may issue new bonds to refund and restructure the outstanding bonds even though the net-present-value savings are negative. Annual debt service on the refunding bonds would be lower than debt service on the refunded bonds in the first few years of the refunded bonds, but the term of the refunded bonds might extend beyond the term of the refunded bonds, thereby increasing overall total interest costs.

- 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 *Reimbursement of City Expenditures.* If the City intends to reimburse itself from proceeds of tax-exempt debt for City expenditures made before issuance of the debt, then City staff must bring forward to the City Council, as soon as is practicable and in accordance with 26 C.F.R. § 1.150-2, a resolution declaring the City's official intention to reimburse itself.
- 4.4 *Method of Sale.* Except to the extent a competitive process is required by law, the City Treasurer is responsible for determining the appropriate way 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 borrowing. 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.
- 4.5 *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 the par amount of bonds to be issued, the complexity of the financing, and the need for greater bond-market penetration (institutional and retail investors, and high-net-worth individuals).
- 4.6 *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 obtain specialized analytical services that facilitate the issuance of City Debt by minimizing borrowing costs. The City Treasurer will make these selections with the goal of achieving an appropriate balance between cost and service quality (e.g., general professional experience, professional reputation, market recognition, and the City's experience with the service provider). 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 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 and after consulting with the underwriter of the proposed debt and one of the City’s municipal advisors.

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 an underlying (i.e., unenhanced) rating of BBB or higher.

5.3 ***Credit Enhancement.*** The City Treasurer’s Office will work with one of the City’s municipal advisors and with the underwriter of the proposed City Debt (or senior managing underwriter, if there is an underwriting syndicate) 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 one of the City’s municipal advisors and with the underwriter of the 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.

* 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.

- 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 a rate that results from a periodic remarketing of the debt. Although the City might benefit from short-term variable-rate debt, issuing variable-rate debt, especially long-term debt, passes an unknown obligation and risk to future City Councils and the funds expected to repay the debt.
- 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 federal and 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 interest of potential investors and the price of the bonds. The City’s preferred structure is optional redemption at par 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 debt financing with a small par amount.

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 debt 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 debt 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 debt 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 proceeds have been fully expended or the balance in the project fund has fallen below 5% of the proceeds deposited, 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 the 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., participation in the IRS's Voluntary Closing Agreement Program).
- (C) The City Treasurer or the 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 and disclosure 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 uses.
- (B) Consulting with the City Attorney's Office and bond 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 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 bond 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; on April 23, 2019, by Resolution No. 2019-0122; on December 10, 2019, by Resolution No. 2019-0453; on June 30, 2020, by Resolution No. 2020-0189; and on June 1, 2021, by Resolution No. 2021-____)