

RESOLUTION NO. 2011-322

Adopted by the Sacramento City Council

June 2, 2011

APPROVING AN AMENDMENT TO THE CITY'S DEBT MANAGEMENT POLICY AND A SUPPLEMENTAL DISCLOSURE POLICY

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 working with various departments, residents, businesses, and other government agencies to provide the most effective financing solution for all involved.
- B. The purpose of a Debt Management Policy is to articulate the guiding principles for City debt issuance and management before consideration of specific actions and before the principles come under stress. It further demonstrates the City's commitment to sound financial management.
- C. Upon adoption of the Debt Management Policy on August 24, 2010, the City Council recommended clarification of roles and responsibilities to document a system of checks and balances. The proposed amendment addresses this recommendation.
- D. Section IIF of the Debt Management Policy provides for Supplemental Policies tailored for specific elements of the debt-issuance process. The deteriorating state of the financial markets has placed greater emphasis on the frequency and quality of disclosure documents. The proposed Supplemental Disclosure Policy sets forth policies and principles to ensure that the City and related entities comply with federal securities law related to disclosure.
- E. The City Manager, City Attorney, and City Treasurer propose adoption of the amended Debt Management Policy and Supplemental Disclosure Policy to establish overall guidelines for responsibly issuing and administering the City's debt.

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

- Section 1. Adoption of the amendments to the City's Debt Management Policy as set forth in Exhibit A to this Resolution is approved.
- Section 2. Adoption of the Supplemental Disclosure Policy as set forth in Exhibit B to this Resolution is approved.

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:
 - assume responsibility for structure, issuance, and administration
 - maintain relationships with rating agencies, investors, etc.
 - participate in document preparation and review
2. City Manager and Delegated Departments:
 - identify and prioritize projects
 - identify source(s) of debt service
 - identify sources for project operation and maintenance
 - participate in document preparation and review
3. City Attorney
 - provide independent check on adherence to law and regulations
 - protect City's interests
 - participate 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.]

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 10b-5, and SEC Rule 15c2-12.

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

- SEC Investigations that could result in civil actions or referral to the Justice Department for criminal prosecution. Levels of culpability include negligence, recklessness, and intent to defraud (i.e., “scienter”).
- Imposition of cumbersome procedures and oversight to settle SEC actions.
- Adverse publicity to the City that could result in reduced market access.
- Rating downgrades that potentially could trigger costly mitigation on bond issues.

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

- Enhance credibility in the marketplace.
- Foster liquidity for the securities.
- Demonstrate a solid track record of disclosure 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 and applies to all documents and information that are reasonably expected to reach investors/securities market, including the following:

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

C. **Definition of Material.** A statement or omission is material (a) if there is a substantial likelihood that a reasonable (not “any”) investor would (not “could”) consider it important (not merely “interesting”) in making the decision to purchase or sell the securities *and* (b) 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 is to be managed in conformance with applicable federal, state, and other legal requirements, including the Sacramento City Code.

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. Thus, all provisions of the Debt Management Policy apply only as to specifics related to disclosure compliance. If any conflicts arise between the Debt Management Policy and this Supplemental Disclosure Policy, then the Debt Management Policy prevails.

B. Point of Contact. The Office of the City Treasurer is primarily responsible for the developing and distributing information and for determining the information's materiality.

C. Responsibility

1. As the primary Point of Contact, the Office of the City Treasurer shall 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. This responsibility includes but is not limited to preparing the following documents and filing them with EMMA (Electronic Municipal Market Access), the disclosure portal maintained by the Municipal Securities Rulemaking Board: preliminary and final official statements, annual continuing-disclosure reports, and material-event notices. It also includes preparing 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 the City Manager shall serve as integral members of the financing team, each responsible, as appropriate, for ensuring and certifying 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 is appropriate and that reliance upon those professionals 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 is responsible for arranging training for City employees, City officers, the City Council, and the Mayor regarding their obligations relating to disclosure matters under federal securities laws. The City Manager and City Attorney shall require the attendance at such training of those persons for whom the City Treasurer recommends such training.

6. City officers and employees who serve as financing-team members shall review and provide input on draft documents, taking care that all material information is included. Material information must be disclosed even if politically sensitive or confidential.

7. Officers and employees of the City and related entities shall promptly provide such information, assurances and certifications as the City Treasurer, in his or her sole discretion, may request to assure compliance with federal securities laws. The City Manager and City Attorney shall require the participation of all persons whose participation 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 to make the statements made, in the light of the circumstances under which they were made, not misleading. If the City Manager, City Attorney, or City Treasurer is unavailable, then an authorized designee may make the certification required by this section.

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

Table of Contents:

Exhibit A – Debt Management Policy

Exhibit B – Supplemental Disclosure Policy

Adopted by the City of Sacramento City Council on June 2, 2011 by the following vote:

Ayes: Councilmembers Ashby, Cohn, D Fong, R Fong, Pannell, Schenirer, Sheedy,

Noes: None.

Abstain: None.

Absent: Mayor Johnson, Councilmember Kevin McCarty


Bonnie Pannell, Vice-Mayor

Attest:


Shirley Concolino, City Clerk