CITY OF FRESNO
DEBT MANAGEMENT POLICIES

POLICY

These policies will govern primarily debt issued by the City on behalf of its taxpayers. Some polices relative to debt issued by the City on behalf of other parties are also covered.

It is the policy of the City of Fresno to issue debt for capital improvements, facilities, equipment and other essential service needs using the following objectives:

1. Achieve the lowest cost of capital
2. Maintain a prudent level of financial risk
3. Preserve future financial flexibility
4. Maintain strong credit ratings and good investor relations
5. Ensure that local, [small?], emerging and disadvantaged business enterprise investment banking and financial firms will be considered for, and utilized in, lead and senior manager roles when appropriate

Recognizing that cost-effective access to the capital markets depends on prudent management of the City's debt program, the City Council has adopted this Debt Management Policy by resolution.

ARTICLE I
DEBT MANAGEMENT

Section 1 - Scope and Authority

This Debt Policy shall govern the issuance and management of all debt and lease financings funded from the capital markets, whether publicly offered or privately placed, including the selection and management of related financial services and products, and investment of bond and lease proceeds, except where the investment of bond and lease proceeds is covered by the Investment Policy. While adherence to this Policy is required in applicable circumstances, it is recognized that changes in the capital markets, rating agency programs and other unforeseen circumstances may from time to time produce situations that are not covered by the Policy and will require modifications or exceptions to achieve policy goals. In these cases, management flexibility is appropriate, provided specific authorization from the City Manager and the Council is obtained.

Term of Debt:

A. **General Fund:** Debt will be structured for the shortest period possible, consistent with a fair allocation of costs to current and future beneficiaries or users. The issuance of debt by the City should be of a duration that does not exceed the useful life of the improvement that it finances and, where feasible, should be shorter than the projected economic life. The standard term of long-term borrowing is typically 15-30 years.

B. **Enterprise:** The term of Enterprise debt will be structured such that the obligations do not exceed the expected useful life of the assets being purchased or constructed. The City shall keep the final maturity of Enterprise Revenue Bonds at or below 30 years, unless special circumstances arise warranting the need to extend the debt schedule.

Section 2 - Debt Repayment
The City will seek to structure the debt service of each new issue with level combined principal and interest payments, or to achieve level aggregate debt service. Upon the issuance of each new debt instrument, the portfolio will be evaluated as will the type of project being financed, and current economic conditions. The cost of capital, financial risk, future financial flexibility, credit ratings as well as available cash flow, will all be evaluated to determine the best amortization of new debt as it relates to the existing portfolio. Back loading of debt service will be considered only when one or more of the following occur:

A. Natural disasters or extraordinary or unanticipated external factors make payments on the debt in early years prohibitive.
B. The benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present
C. Such structuring is beneficial to the City's aggregate overall debt payment schedule
D. Such structuring will allow debt service to more closely match project revenues during the early years of the project's operation.
E. In the case of Enterprise Revenue debt, the costs of deferred debt service on an issue are justified by it better accommodating a reasonable pattern of rate increases.

Section 3 - Debt Structure
Debt will be structured to achieve the lowest possible net cost to the City given market conditions. Consideration will be given to the net revenues expected from the project (if any) and the nature and type of the security provided. Generally, borrowings by the City should be of a duration that does not exceed the economic life of the improvement that it finances and where feasible should be shorter than the projected economic life. Moreover, to the extent possible, the City should design the repayment of its overall debt so as to recapture rapidly its borrowing capacity for future use.

The City may however choose to structure debt repayment so as to wrap around existing obligations to create more level overall debt service or to achieve other financial planning goals. Generally, Capital Appreciation Bonds, which defer interest payments until the final maturity, will be avoided. Such alternative structures shall be subject to the approval of the Council.

An analysis of the City’s debt portfolio demonstrating its compliance to these policy goals shall be included in the Comprehensive Annual Debt Report called for in Article VI of this policy.

Section 4 - Debt Structure Practices
The following terms shall be applied to the City's transactions as appropriate. Individual terms may change as dictated by the marketplace or the unique qualities of the transaction.

A. Long-Term Bonds

a. *Payment Dates – Fixed:* After considering cash flow needs, the City Controller will determine the occurrence of all new debt service payments.

b. *Bond Type:* The City Controller will determine the legal security most appropriate for the source of debt service payment (e.g., Lease Revenue Bonds or Enterprise Revenue Bonds). The City Controller, in consultation with the Financial Advisor and Underwriter, will determine the type of bond products will produce the lowest cost of funds (e.g., serial bonds or term bonds).

c. *Capitalized Interest*: For lease-debt for new construction, capitalized interest is sized through substantial completion plus a minimum of six months unless other assets are available to be pledged, unless otherwise limited under Federal Tax Law. Liquidated damages of construction contract must include amount of daily debt service to further mitigate construction risk.

d. *Reimbursement Resolution:* Must be adopted by the City Council if the project capital costs are advanced by the City prior to 60 days before the bond sale.

e. *Call Options and Redemption Provisions:* Call provisions for bonds to be made as short as possible consistent with the lowest interest cost to the City. When possible, all bonds should be callable only at par.

B. **Variable Rate Bonds:** The City may elect to issue any bonds as variable rate bonds, which are broadly defined to mean daily, weekly, monthly or semi-annual interest rate resets.

a. *Purpose:* Reduction of net borrowing cost; better match of liabilities to variable-rate assets such as investments.

b. *Max Portfolio Allocation:* No more than 20% of the City's outstanding debt portfolio by fund type shall be in un-hedged variable-rate paper consistent with policies for underlying debt types.

c. *Risk Mitigation Factors*: Historic average of cash balances over the course of several prior fiscal years, projected cash flow balances of known demands on a given fund and on City fund balance policies, and the difference in performance or duration of the City’s investment vehicles compared to the variable rate debt instrument to be used by the City. The City will not use interest rate swaps or other derivative’s to create “synthetic” fixed-rate debt or “synthetic” fluctuating rate debt.

d. *Monitoring:* The City Controller shall monitor all variable rate bonds on a monthly basis and shall determine, from time to time, whether to change modes, replace a broker/dealer or remarketing agent, or refund the bonds into a fixed-rate mode.

e. *Budgeting:* The City Controller will recommend that annual debt service on any variable rate bonds be budgeted at 1.5 times the rolling 3 year average of the Securities Industry and Financial Markets Association (SIFMA) variable swap rate index, another relevant index, or as otherwise required by the respective bond covenant.

f. *Liquidity:* A liquidity facility may be obtained, either externally or internally, for all short-term indebtedness containing a put feature.

g. *Mode:* Bonds issued as variable rate bonds shall be issued as "multi-modal" bonds, unless the City Controller in conversation with the Municipal Financial Advisor determines otherwise on a case by case basis.

Section 5 - Debt Level and Capacity
Establishing the City's debt capacity limits should, in large part, be based on its CIP and the impact of planned debt issuances on the long term affordability of all outstanding debt. Each project will be compared and evaluated on a cost-benefit basis to determine those projects that best meet the City's policy objectives as defined in the City's five-year CIP.

The Fresno City Charter Section 1213 imposes a 20% limit on general obligation bonding where the bonding cannot exceed 20% of the assessed value of all real and personal property within the City. There is no legal limit on bonding levels for other types of bonds or any bonding limitation on the City's General Fund.

On LRBs/COPs and similar financing, special attention shall be given to the methodology in determining a secure, long-term revenue stream to repay the debt so as to minimize General Fund subsidization of the debt. For example, the impact on General Fund debt capacity may be reduced by the allocation of special revenues such as building Impact Fees. A conservative strategy which is evaluated using relevant criteria will be employed for all bond financing that is presented to the City Council as part of the issuance authorization agenda item.

Section 6 - Debt Measurement Ratios
The affordability of debt will be evaluated prior to its incurrence by calculating various debt ratios, and monitoring those ratios in order to identify trends over time. These ratios will also be calculated annually and included in the Comprehensive Annual Debt Report called for in Section XII below.

The City will have quantitative goals relative to direct debt. Direct debt will be measured by the following:

A. Net Direct Debt (General Fund and other tax supported debt) to Assessed Value shall not exceed 3%
B. Percentage of Principle on Net Direct Debt Retired in Ten Years shall average at least 35% and at least 40% within 15 years
C. Net Direct Debt Service as a percentage of General Fund Appropriations shall be less than 10%

Other government entities with underlying or overlapping direct debt burden including school districts, Fresno County, and Successor Agency Tax Allocation Bonds add to the City's overall debt burden as calculated by the rating agencies. The City's proportionate share of other government entities that either overlap or underlie is referred to as its overlapping debt. In its disclosure documents and CADR, the City shall prepare a statement of overlapping debt each year.

Section 7 - General Fund Net Direct Debt Service Limit
The City will monitor and limit the Net Direct Debt Service being paid from the General Fund. The ratio of LRBs and COPs debt service as a percentage of annual revenue or expenditures is referred to as "lease burden".

It shall be the policy of the City to conduct an affordability analysis as determined by the lease

burden ratio when any new General Fund supported debt is issued. Credit rating agency guidelines usually consider a lease burden ratio between 8% to 12% to be moderate. It shall be the policy of the City to maintain a lease burden ratio not to exceed 10%.

Section 8 - Enterprise Debt Limits
The City shall conduct affordability analysis for proposed Enterprise Revenue Bonds issuances. The affordability analysis shall compare projected annual gross revenues less operating and maintenance costs (excluding depreciation) to estimated annual debt service in order to calculate a debt service coverage ratio. 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. It shall be the policy of the City to maintain a coverage ratio as defined in the indenture of the bond issue. It shall be the policy of the City to require a rate increase to cover operational and maintenance costs, debt service costs, and replenish debt service reserve funds or to create operating and capital reserves in order to maintain the required coverage ratios.

ARTICLE II
ASSET LIFE

The City will consider the use of debt for the acquisition, development, replacement, maintenance, or expansion of an asset only if it has a useful life of at least five years. Debt will not be issued for periods exceeding the useful life or average useful lives of the project or projects to be financed. This section shall not apply to approved Master Lease Purchase program assets, where assets with a shorter useful life may be financed.

ARTICLE III
METHODS OF FINANCING

The City may utilize one or several methods of financing capital projects as defined in the CIP. This policy will set forth guidelines for these decisions by identifying parameters within each funding source that are considered appropriate. These parameters are defined below.

Section 1- Cash Funding
It shall be the policy of the City to encourage funding capital projects with cash, on a "pay as you go" basis, to the extent possible and practical. As part of a "pay as you go" strategy, the City will first look for grant funding for capital projects.

Section 2 - Short Term Financing

A. **TRANs:** It shall be the policy of the City to use TRANs when it is determined that the sale of TRANs is necessary to meet cash flow needs. The timing of the note sale, the notes' due date, and the timing and structuring of repayment will be components of the cash flow and cash management analysis performed by the Finance Department. Charter Section 1210 reads, "Money may be borrowed in anticipation of the receipts from taxes during any fiscal year, by the issue of notes, certificates of indebtedness or revenue bonds; but the aggregate amount of such loans at any time outstanding shall not exceed twenty five percent (25%) of the receipts from taxes for the fiscal year in which they are issued."

B. **Commercial Paper:** The City may choose to issue tax-exempt or taxable commercial

paper as a source of interim borrowing/financing for projects contained in the CIP only after the City Controller determines that such financing represents the least cost interim financing option for the City. Commercial paper will not be issued for City capital programs unless it is of sufficient economic size and subject to constitutional and local law limitations on multiyear debt.

C. **Lines of Credit:** The City can consider Lines of Credit (LOC) as an alternative to other short term borrowing options. The City Controller shall determine when it is financially prudent for the City to enter into agreements with commercial banks or other financial institutions for the purposes of acquiring an LOC.

Section 3 - Long Term Debt Financing

Long-term borrowing shall be confined to capital investments or similar projects with an extended life for which it is not practical to finance from current revenues. The City shall not use long-term debt to finance current operations. Long-term debt shall be utilized when necessary to acquire land or capital assets based upon a review of the ability of the City to meet future debt service requirements. The project to be financed should also be integrated with the City's long-term financial plan and CIP, with an assessment of the need and priority of the capital project.

The following are long term financing options:

A. **General Obligation Bonds:** Voter approved General Obligation Bonds (GO) provide a new and dedicated revenue source in the form of additional ad valorem taxes to pay debt service. They require 2/3rd voter approval.

B. Lease Revenue Bonds and Certificates of Participation**:** LRB's can be used to finance capital projects that 1) have an identified budgetary system for repayment; 2) generate project revenue but rely on a broader pledge of general fund revenues to reduce borrowing costs; or 3) finance the acquisition, construction and installation of land, facilities and equipment for the City's general government purposes. LRB's are secured by a lease-back arrangement between the City and another public entity, usually the Fresno Joint Powers Financing Authority. The general operating revenues of the City and/or a designated special fund are used to pay the lease payments, which are, in turn, used to pay debt service on the LRBs. LRBs do not constitute indebtedness under the state constitution and are not subject to voter approval.

C. Revenue Bonds and Certificates of Participation**:** Revenue Bonds finance water, wastewater utilities, public golf courses, airports or public facilities. They are payable by the revenues generated by the enterprise. The City's Revenue Bonds are payable solely from the funds of the issuing enterprise unit and are not secured by any pledge of ad valorem taxes or general fund revenues of the City. Bond covenants provide that revenues generated by these enterprise funds must be sufficient to maintain required debt coverage levels, or the rates of the enterprise have to be raised to maintain the coverage.

D. Privately Placed Lease Debt**:** A lease purchase obligation may be placed with a bank or other lender without the issuance of securities. Such a financing mechanism has been used by the City to finance certain vehicle and equipment purchases when the aggregate cost of equipment to be purchased exceeds $50,000. In rare instances, acquisitions below $50,000 may be deemed to be clearly cost effective and in the City's best interest. At the discretion of the City Controller, these transactions will be evaluated

on a case-by-case basis.

Efforts will be made to fund capital equipment with pay-as-you-go financing where feasible, and only the highest priority equipment purchases will be funded with lease obligations. All equipment with a useful life of less than five (5) years shall be funded on a pay-as-you-go basis except for fiscal emergencies as determined by the Mayor and affirmed by a majority vote of the City Council. Adequate funds for the repayment of principal and interest must be included in the requesting department's approved budget. The term of short term financing shall be limited to the useful life period of the vehicle or equipment, but in no case shall exceed 10 years.

E. Conduit Debt**:** Conduit debt is financing issued by a government agency to fund a project of a non- governmental third party, such as a non-profit organization or other private entity. The City may sponsor conduit financings for those activities (e.g. economic development, housing, etc.) that may have a general public purpose and are consistent with the City's overall service and policy objectives. Unless a compelling public policy rationale exists, such conduit financing will not in any way pledge the City's credit. While the City issues the conduit revenue bonds on behalf of qualified non-governmental organizations, repayment of the debt is secured solely by the non-governmental organization. No City funds shall be pledged to support the conduit bonds and no appropriation will be made in the event of a default.

The City's preference is to assist non-profit organizations in securing conduit financing through agencies such as California Statewide Community Development Authority, the California Municipal Finance Authority, or various authorities created by the State. The role of the City in these instances is to hold a Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) hearing. This Act requires the local legislative body of the local agency in which the project is located to notice and conduct a public hearing. Applications for a TEFRA hearing are made to the Controller acting as the City's Debt Administrator, who will schedule the matter for Council's consideration. The Controller will prepare a staff report on the policy considerations associated with the project or its financing. The Council holds this hearing and calls for any public testimony regarding the proposed project financing. Upon receiving the testimony, Council may vote to approve the issuance of bonds by the non-profit organization.

F. Judgment Obligation Bonds**:** Judgment Obligation Bonds will be considered for unusual non-recurring court judgments. The bond maturity will be limited to 10 years to demonstrate the willingness of the City to repay such obligations in a reasonable time frame. Principal amortization will be appropriate for the particular transaction. At the discretion of the City Controller, bond maturity can be extended beyond 10 years based on excessive awards exceeding $10 million.

G. **Pension Obligation Bonds:** The City may elect to fund accrued pension liabilities through the issuance of Pension Obligation Bonds (POBs) rather than funding such obligations on a pay-as-you go basis. POBs are issued as taxable instruments, with bond terms typically matching the term with the amortization period of the outstanding unfunded actuarial accrued liability. POBs will undergo an active judicial validation process prior to the sale of the bonds. They are not subject to voter approval. The authority to issue POB's without a vote is found in a judicially created exception to the California State Constitution, Article XVI, Section 18. It shall be the policy of the City to limit the term of POB's to not exceed 30 years.

H. **Mello-Roos and Assessment Bonds:** The Mello-Roos Act of 1982 allows any city to establish a Mello-Roos Community Facilities District (CFD) for financing of public improvements and services. These CFDs may assess special taxes, which must be approved by a two-thirds vote of registered voters within the district (unless there are fewer than 12 registered voters, in which case the vote is by landowners). Any bonds issued by the CFD are secured by the special tax on the real property within the district. These types of obligations constitute overlapping indebtedness of the City and have an impact on the overall level of debt affordability.

The City also may issue assessment bonds through a special benefit assessment district to finance projects that provide special benefits. These bonds are repaid by assessments levied proportionate to the special benefit conferred, and are subject to a majority notice/protest hearing requirements. The proportion of the project cost associated with "general benefits" must be financed from non-assessment sources.

It shall be the policy of the City to not use the General Fund to financially support assessment or Mello-Roos obligations.

I. **Tax Allocation Bonds:** Prior to the dissolution of redevelopment agencies, the Redevelopment Agency could issue Tax Allocation Bonds repaid from tax increment. The City as the redevelopment successor agency can issue refunding bonds, and they should be considered when they meet the criteria discussed in Article IX of these policies. Any savings will be shared with overlapping taxing jurisdictions based on the statutory allocation of general property taxes.

J. **US HUD Section 108 Loans:** At the City, HUD Section 108 loans are administered by the Development and Resource Management Department. These loans will be structured to be sound loans to assist in economic development projects. In addition, Section 108 loans will also be structured to provide sufficient guarantees so that if the loan is in default, the General Fund would be the payment source of last resort. The Section 108 loan program requires that future Community Development Block Grant (CDBG) funding and (if requested) additional specified collateral be used as first security for payment.

K. **Interfund Borrowing:** The City may borrow internally from other funds with temporarily surplus cash to meet short-term needs in lieu of issuing debt. Such purposes could include short-term cash flow imbalances due to grant terms (i.e., the need to incur costs prior to reimbursement) and interim financing pending the issuance of bonds. The City funds from which the money is borrowed shall be repaid with interest, accruing monthly based upon the average earnings rate of the City's investment pool. To the extent any interfund borrowing is undertaken as a form of bond anticipation financing, the City will adopt a resolution of its intention to repay such funds out of tax-exempt bond proceeds, so as to meet the requirements of federal tax law for such borrowings.

Any borrowing between two City funds is governed by the Reserve Management Act of 2015 and the Taxpayer Protection Act of 2009.

ARTICLE IV
FUNDING SOURCE MATRIX

The matrix below illustrates a reference source for funding debt policies:

PARAMETERS	Cash	TRANs Loans	BANs	Capital Lease Bond	Revenue Bond	Short Term Loan	Long Term Loan
Matching cash shortfalls between revenues & expenses		X	X				
Project life is less than 5 years	X					X	
Project life is greater than 10 years				X	X		X
Recommended temporary funding before bond sale			X			X	
Recommended variable rate funding mechanism						X	
Voter Approved General Obligation Bond							X
Financing public Utilities projects					X		X
The amount borrowing is less than $5 million						X	
The amount borrowing is greater than $5 million				X	X		X

ARTICLE V
SERVICE PROVIDER SELECTION AND COMPENSATION

All municipal financial advisors, bond counsel, disclosure counsel, trustees and underwriters will be selected through a Request for Proposal (RFP) or a Request for Qualifications (RFQ) process based on the circumstances. The RFP/RFQ process will be conducted by the Finance Department and the City Attorney's Office, as appropriate. The City's contracting policies will apply to all contracts with finance professionals, as permitted by state and federal law. Once the financial advisor is selected, the financial advisor will assist the City in the selection of other service providers, including underwriters, trustees, escrow agents, credit enhancers, verification agents, title insurance companies, and financial printer.

Section 1- City Financial Professionals Team

A. **Financial Advisors:** The City shall utilize the services of independent financial advisor(s) on debt financing when deemed prudent by the City Controller. Services and compensation caps shall be defined by contract. The primary responsibilities of the Financial Advisor are to advise and assist on bond document negotiations, structuring transactions (including advising on call option provisions and timing of issuance), running debt service cash flow numbers, obtaining ratings on the proposed issuance, and generally acting as an independent financial consultant and economic market expert.

B. **Underwriters:** In the case of a competitive sale, the City will award the bonds to the underwriting firm whose bid results in the lowest True Interest Cost. In the case of a negotiated sale, the City Controller, once every five years or as needed, will develop a pool of qualified underwriters using an RFP process. Selection of underwriters for a specific transaction will be made by the City Controller, who may use a supplemental

RFP distributed to some or all of the underwriting pool members.

C. **Bond and Disclosure Counsel:** The City Attorney's Office will take the lead in selecting bond counsel, and the Finance Department will take the lead in selecting disclosure counsel through an RFP process or as authorized determined by the lead department. Bond Counsel responsibilities will include preparing the necessary authorizing resolutions, ordinances, agreements and other legal documents necessary to execute the financing. All debt issued by the City will include a customary approving legal opinion of Bond Counsel. Disclosure Counsel will prepare the official statement for any public offering. The City's practice is to select separate firms for each role, although a single firm can serve in both capacities.

D. **Broker-Dealers and Remarketing Agents**: For variable rate bonds, the City Controller shall select broker-dealers or remarketing agents for each transaction through the RFP process. The City shall monitor performance on a monthly basis. The City may replace a remarketing agent or broker-dealer with notice at any time, consistent with the financing documents.

E. **Trustees:** Trustees will be selected for each transaction or program by RFP, unless use of a current trustee is deemed in the City's best interest by the City Controller. The Trustee (or applicable holding company) shall have a combined capital and surplus of at least $50 million and be subject to supervision or examination by federal and state authority.

F. **Rebate Consultant:** Selected by RFP for all bonds for a set term with 1-year extensions.

G. **Liquidity Providers:** Selected for each relevant issue by RFP issued by the Finance Department or its agent and subject to negotiation of terms.

H. **Investment Agreement Counterparties:** Selected by bid in compliance with Federal Tax Law Requirements in accordance with relevant financing documents and the City's Investment Policy.
    a. In general, uncollateralized Investment Agreements shall be executed with counterparties rated at least AA with collateral required upon downgrade below AA.
    b. Repurchase Agreements or Forward Delivery Agreements shall be executed with counterparties rated at least AA (by at least one of the major rating agencies) with downgrade provisions requiring assignment or collateral should the rating fall below A- or A3 by Standard and Poor's or Moody's Investor Services respectively.

Section 2 - Compensation for Services

Compensation for bond counsel, underwriter's counsel, financial advisors, and other financial services will be as low as possible, given desired qualification levels, and consistent with industry standards. The costs of service providers will be included in the cost of issuance and paid from bond proceeds. The ongoing trustee fee for a bond issuance will be budgeted under administration costs and appropriated in respective bond payment accounts.

ARTICLE VI
DEBT ADMINISTRATION AND DISCLOSURE

Section 1 - Ongoing Debt Administration and Disclosure
It is the goal of the Finance Department and the City to provide disclosure and transparency.

A. **Budgeting Debt Service:** The City will budget for gross debt service, with only interest earnings on bond funds from the prior year or capitalized interest considered.

B. **Comprehensive Annual Debt Report:** The City will provide its Comprehensive Annual Debt Report using its best efforts to issue the Comprehensive Annual Debt Report (CADR) as soon as practical following the issuance of the City's Annual Comprehensive Annual Financial Report (CAFR). The Comprehensive Annual Debt Report will also be on the City's website and filed with the City Clerk. (See also Article XII - Annual Debt Report).

C. **Continuing Disclosure:** The City will prepare other reports as required by its continuing disclosure agreements undertaken with each bond offering, and will ensure the timely posting of reports to the Electronic Municipal Market Access (EMMA) site maintained by the Municipal Securities Rulemaking Board (MSRB). The City will also issue material event notices on a timely bases in accordance with the provisions of SEC Rule 15c2-12.

D. **Voluntary Disclosure:** The City will consider making additional disclosures as the Controller deems appropriate.

Section 2 - Arbitrage Compliance
The City Controller shall maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. The City shall calculate arbitrage annually each year that the related project funds (or equivalent) have an outstanding balance. Thereafter, the City shall calculate arbitrage on the fifth anniversary of the bond issuance in accordance with IRS requirements, unless bond documents require otherwise or the previous calculation resulted in a positive liability. The City Controller may elect to engage an arbitrage consultant to prepare these calculations.

Section 3 - Insurance Certification
The City (through its Risk Manager) shall provide annual insurance certification to the Trustee and Bond Insurer as required by the bond documents.

ARTICLE VII
METHOD OF SALE

Section 1 - Competitive and Negotiated Sale
The two primary methods of issuing debt obligations are 1) a competitive sale or 2) a negotiated sale.

A. **Competitive Sale:** Under this method of sale, underwriters submit sealed bids and the underwriter or underwriting syndicate with the lowest True Interest Cost (TIC) is awarded the sale. The bidder's role is limited to reviewing the offering circular and continuing disclosure, making credit assessment based on the facts presented in the offering circular, and offering its bid per the bidding parameters established by the City.

B. **Negotiated Sale:** In a negotiated sale, the underwriter or underwriting syndicate is selected earlier in the process through a Request for Proposal (RFP) process. The underwriter's fee is negotiated prior to the sale, based on market conditions. The underwriter will actively assist the City in structuring the financing and marketing the bonds including providing assistance in preparing the bond offering circular. Interest rates are established during the bond sale.

Section 2 - Public Offerings, Private Placement and Other Types of Placement

A. **Public offerings:** It shall be the policy of the City to issue debt through a public offering in the form of either a competitive sale or a negotiated sale.

The decision on whether to use a competitive sale or a negotiated sale shall be based on the following criteria: Market Familiarity; Credit Strength; Policy Goals; Type of Debt Instrument; Issue size; and Market Conditions.

B. **Private Placement:** From time to time the City may elect to privately place its debt. Such Placement shall be considered if other methods are not viable, or the particular circumstances will result in a lower cost of financing in the City Controller's opinion. Private placement is a variation of a negotiated sale. Instead of retaining the services of an investment banking firm to underwrite the securities, the City will sell the bonds directly to a single investor. The City may use a placement agent to assist it in identifying likely investors.

ARTICLE VIII
BOND RATING AND COMMUNICATIONS

It shall be the policy of the City to secure underlying ratings on all publicly offered obligations from at least one national ratings agency. The Finance Department shall communicate with each rating agency that rates City debt issues periodically. The City Controller will prepare a CADR to the Mayor and City Council assessing the City's strengths and weaknesses as perceived by credit analysts. Any changes in rating will be promptly noticed to the Mayor and the City Council. The Finance Department shall deliver to each of the rating agencies the following documents: 1) Annual CAFR and 2) Proposed or Adopted Annual Budget, depending on the time of the year.

ARTICLE IX
REFUNDING/REFINANCING POLICIES

The City will monitor and periodically review and evaluate all outstanding debt to determine if refunding/refinancing opportunities exist. Refunding/refinancing is undertaken to take advantage of lower interest rates to achieve cost savings. Savings will be analyzed on a present value basis by using either a percentage of maximum call option value or a percentage of the refunded par amount. All costs and benefits of the transaction will be taken into account.

Refunding/refinancing will be considered if and when there is a net economic benefit of the transaction or the transaction is essential in order to update covenants to improve operations and management. Other benefits of refunding include restructuring debt to free up reserves or encumbered assets.

A present value analysis will be prepared to identify the economic effect of any proposed refunding/refinancing. To proceed with a refunding/refinancing, either of two methodologies may be used to analyze the targeted savings. The first method is the more traditional methodology of measuring the net present value savings as a percentage of the refunded par amount with a minimum average savings on an advance refunding for economic savings when a net present value savings are at least five percent (5%) of the refunded debt and three percent (3%) on a current refunding can be achieved. Alternatively, the second method that may be used is that a minimum of 90% of the maximum call option value should generally be achieved. The City Manager will have the final discretion to recommend individual refunding candidates above or below the target to optimize the City's financial objective. Exceptions will be made only upon the approval of the City Controller.

ARTICLE X
INVESTMENT OF BOND PROCEEDS

All bond proceeds shall be invested consistent with the City's Investment Policy and the financing documents. Investment Agreements will comply with the requirements of Article VI of this Policy. Investment of proceeds and records thereof will be structured to comply with the arbitrage rebate compliance requirements of the federal tax code.

ARTICLE XI
CREDIT ENHANCEMENTS

The City shall use credit enhancement (letters of credit, bond insurance, surety bonds, etc.) when such credit enhancement proves cost-effective. The City Controller will recommend the use of credit enhancement if it reduces the overall cost of the proposed financing. The City will consider the use of credit enhancement on a case by case basis, evaluating the economic benefit versus the cost of each case as well as any additional covenants or administrative burdens. This analysis will be undertaken to determine anticipated cost-effectiveness to both the first optional call date and to maturity. Only when a clearly demonstrable savings can be shown shall credit enhancement be considered.

ARTICLE XII
ANNUAL DEBT REPORT

The City Controller shall prepare a CADR on City debt financing and present it to the City Council immediately following the completion of the Comprehensive Annual Financial or as soon as feasible and preferably prior to the Mayor submitting his/her proposed budget. This report will describe any known bond issues planned for the coming fiscal year and will describe bonds issued during the past fiscal year and up to and including the date of the report. The report shall also provide historical and projected information on debt, including debt capacity and debt service coverage. The report will cover all forms of City debt financing, including General Fund debt, enterprise fund debt and debt guarantees.

ARTICLE XIII
SUPER MAJORITY VOTE

All debt financing decisions involving a total par exceeding $5 million, except adopting the annual budget and other short-term financial decisions shall be by a super majority vote of five

votes the City Council to pass the debt issuance approval. For bonds under $5 million, subject to the provisions of the City Charter, a simple majority vote will be required to pass to pass the debt issuance approval. A simple majority will be required for a refunding that meets the criteria defined in Article IX.

ARTICLE XIV
TRANSPARENCY

The City is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, City Departments and agencies, other levels of government, and the general public to share clear, comprehensible, and accurate financial\information. All relevant financial information and reports related to bond issuance shall, consistent; with applicable law, be available for public viewing at the City's website via a link to the Electronic Municipal Market Access (EMMA) site maintained by the MSRB.

ARTICLE XV
REVIEW OF DEBT MANAGEMENT POLICY

From time to time, the City Council will determine if any modifications are necessary based on the actual experience.

ARTICLE XVI
INTERNAL CONTROLS

The City shall be vigilant in using bond proceeds in accordance with the stated purposes at the time such debt was incurred. Whenever reasonably possible, the proceeds of debt issuance will be held by a third-party trustee and the Controller or his/her designee will submit written requisitions for release of proceeds. In cases where it is not reasonably possible for the proceeds of debt to be held by a third-party trustee, the City shall retain records of all expenditures of proceeds through the final payment date for the debt.

ARTICLE XVII
EFFECTIVE DATE

This resolution shall take effect upon the effective date of is enabling ordinance, and shall apply financings issued after its effective date unless expressly otherwise provided in this resolution.

ARTICLE XVIII
DEFINITIONS

Arbitrage Administration: Establishing and maintaining, either directly or through contract, a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. This effort will include tracking investment earning on bond proceeds, calculating rebate payments in compliance with tax law and remitting to the federal government in a timely manner any earnings subject to rebate so as to preserve the tax-exempt status of the City's outstanding debt issues.

Budget: A plan of financial operation containing an estimate of proposed expenditures for a given period (usually a fiscal year) and a proposed means of financing them. A budget is also a plan that outlines an organization's financial and operational goals.

Bond Counsel: A law firm retained by the bond issuer to give a legal opinion that the bond issuer is authorized to issue the proposed securities, the bond issuer has met all legal requirements necessary for issuance, and interest on the proposed securities will be exempt from federal/state income taxation, as the case may be.

Capital Appreciation Bonds (CABs): A bond on which interest is not payable until maturity (or earlier redemption), but compounds periodically to accumulate to a stated maturity amount. These bonds are sometimes misnamed zero coupon bonds. The alternative to a CAB is the more common Current Interest Bond.

Capital Improvement Plan (CIP): The CIP forecasts the City's capital needs over generally a five-year period based on various City-adopted long-range plans, goals and policies. The underlying strategy of the CIP is to plan for land acquisition, construction, and major maintenance of public facilities necessary for the safe and efficient provision of services.

Capital Project: A project that helps maintain or improve a City asset such as land, buildings, or infrastructure. To be included in the CIP, a project must meet ONE of the following requirements (criteria):

a. It is either a new construction or an expansion/renovation/replacement of an existing facility or facilities. The project must have a total cost of at least $10,000 over the life of the project. Project costs can include the cost of land, engineering, architectural planning, and contract services needed to complete the project; or

b. It is a purchase of major equipment (assets) costing $50,000 or more with a useful life of at least 10 years, or

c. It is a major maintenance or rehabilitation project for existing facilities with a cost of $10,000 or more and an economic life of at least 10 years.

Capitalized Interest: A portion of the proceeds of an issue that is set aside to pay interest on the securities for a specified period of time. Interest is commonly capitalized for the construction period of a project financed with Lease Revenue or Enterprise Revenue bonds, prior to the project producing revenue, and sometimes for a period thereafter, so that debt service expense does not begin until the project is expected to be operational and producing revenues.

Certificates of Participation (COPs): Certificates of Participation are financing structures secured by an installment sale or by a lease-back arrangement between the City and another public entity, where the payments used to pay debt service on the COPs. Because COPs are not created by statute, but rather are used to securitize an underlying contract, they can be adapted to a number of financing situations. They are commonly used for both lease revenue and enterprise revenue financings where no workable statutory framework is available.

Comprehensive Annual Financial Report (CAFR): A CAFR is a government financial statement which goes beyond the minimums established for public sector entities by the

Governmental Accounting Standards Board (GASB).

Conduit Debt: Conduit debt is a bond or other debt obligation issued by the City to finance a project developed/owned by a non-government third party. This arrangement is typically used for qualified nonprofit organizations and multi-family housing projects.

Continuing Disclosure: The legal requirement (Securities and Exchange Commission Rule 15c2-12) which requires that an issuer must make a legal undertaking to provide certain annual financial information on an ongoing basis. The continuing disclosure is needed in order for an underwriter to purchase municipal securities from the City.

Debt Derivative: Hybrid financial instruments whose value is "derived" from or based upon the value of another underlying security. The most common form in the municipal sector is the interest rate swap, used to effectively convert variable-rate debt into a fixed-rate obligation, or a fixed-rate obligation into a floating rate obligation.

Debt, Debt Service, Debt Obligations, and Debt Management: Debt may refer to either the amount of bonds issued or the amount of bonds outstanding (i.e. the amount of bonds yet to be paid off). Bonds are also expressed as principal or loan amounts.

The repayment of bond principal with interest is referred to as debt service.

Debt Obligations refers to any financial instrument whereby money is borrowed and repaid with interest, including bonds, short-term notes, certificates of participation, and other forms of debt mentioned in this document.

Debt Management is the process of issuing and managing all aspects of debt and/or debt obligations and its resultant debt service in terms of size, costs, repayment, budgeting, affordability, legal requirements, and timing.

Disclosure Counsel: A law firm retained by the bond issuer to prepare the Official Statement. City practice is to use a separate Disclosure Counsel and a separate Bond Counsel.

Enterprise Funds: A fund established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the government body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Enterprise Revenue Bonds: Bonds secured by a pledge of enterprise revenues, typically those of an airport or a water, wastewater, or solid waste utility.

Financial Advisor: Called a Municipal Advisor under securities law, the Financial Advisor is a fiduciary duty consultant which advises the bond issuer on matters such as bond structure, timing, marketing, pricing, documentation and Credit Ratings. The consultant may also provide non-bond related advice relating to capital planning and investment management.

Fiscal Year: A 12-month period to which the annual operating budget applies and the end of which a governmental unit determines its financial position and the results of its operations. The City has specified July 1 through June 30 as its fiscal year.

Fresno Joint Powers Financing Authority: A Joint Powers formed between the City and the City's Redevelopment Agency to assist in the financing of public capital improvements, primarily by serving as a lessor for Lease Revenue Bonds. The Successor Agency has succeeded the RDA as a member.

Generally Accepted Accounting Principles (GAAP): The term used to refer to the standard framework for guidelines for financial accounting used in any given jurisdiction.

General Fund: The fund in which revenues of the City that are not otherwise restricted as to their use, including monies from local property and sales tax, are deposited. The General Fund pays for City services such as police; fire; public works; elected offices; City Manager; City Clerk; City Attorney; parks and recreation, and community services.

General Obligation Bonds: A municipal bond backed by the taxing power of the issuing jurisdiction and paid out of a supplemental levy of ad valorem property taxes. The California State Constitution requires that the issuance of a general obligation bond by a city must be approved by a two-thirds majority on the bond proposition. Uses of bond proceeds are limited to the acquisition and improvement of real property.

Issuer: A governmental entity, such as the City of Fresno, that has the ability to borrow money in the form of a bond or other debt obligation.

Impact Fees: Fees adopted by the City requiring new developments to pay its proportional share of costs associated with providing necessary public infrastructure.

Judgment Obligation Bonds: Unconditional obligations of the organization payable from General Fund resources used to pay for legal settlements. The City cannot levy a tax for payment of this debt service.

Lease Revenue Bonds (LRBs): LRBs are financing obligations secured by a lease-back arrangement between the City and another public entity, where the general operating revenues of the City are used to pay the lease payments, which are, in turn, used to pay debt service on the bonds. Lease obligations are sometimes issued in the form of COPs, which share virtually all the features of Lease Revenue bonds. These obligations do not constitute indebtedness under the state constitutional debt limitation and, therefore, are not subject to voter approval. They represent the most common form of borrowing repaid out of a city's General Fund.

Payments to be made under valid leases are payable only in the year in which use and occupancy of the leased property is available, and lease payments may not be accelerated. Lease financing requires the fair market rental value of the leased property to be equal to or greater than the required debt service or lease payment schedule. The governmental lessee is obligated to place in its Annual Budget the rental payments that are due and payable during each fiscal year the lessee has use of the leased property.

Long Term Debt: Loans and obligations with a maturity longer than 12 months, usually accompanied by interest payments.

Net Direct Debt: A measure of debt that includes debt paid of property taxes, other General Fund revenues, and dedicated property taxes for General Obligation Bonds. Net direct debt deducts certain obligations that are secured by such revenues but are

reasonably expected to be paid out of non-tax revenues. Net Direct Debt excludes the City's special assessment/tax bonds which are paid from voter-approved special assessments or taxes, and enterprise bonds which are obligations of those enterprise funds.

Net Direct Debt Service: The total annual aggregate lease revenue obligations minus any revenues generated by the debt financed projects to pay this debt service.

Pension Obligation Bonds: Financing instruments used to pay some or all of the unfunded pension liability of a pension plan. The Federal Tax Code requires they be issued on a taxable basis. Because of the limited case law distinguishing such "obligations imposed by law" from constitutionally limited "indebtedness," these obligations are typically validated in the Superior Court prior to issuance.

Property Tax: A general ad valorem tax levied on both real and personal property according to the property's assessed valuation. Proposition 13 limits general property taxes to 1% of assessed valuation, which is allocated to overlapping jurisdictions in accordance to State law. Additional property taxes can be levied for voter-approved debt such as General Obligation bonds and, in certain circumstances, pension costs.

Revenue Bonds: Bonds issued by governments and public agencies that are secured by a specified revenue flow. Revenue Bonds typically refer to bonds secured by enterprise revenues, such as airports, water, wastewater, or refuse collection utilities. Since the debt service is directly paid from and secured by special funds, such debt is not subject to the State Constitutional Debt Limit. The City typically issues Revenue Bonds under its Charter powers. Lease Revenue bonds are a variant of this traditional structure, but secured by General Fund appropriations.

Serial Bonds: Bonds that mature annually or serially in specified amounts

Short Term Debt: Debt payable within 12 months.

Special Assessment/Special Tax: Funds generated through the formation of an assessment district or special tax and the levy of an additional charge reflecting the special benefit to individual properties. Special assessments are typically used to provide public improvements, such as street construction and flood control.

Special Funds: Funds used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specified purposes. Legal restrictions are generally imposed by State law.

State Constitutional Debt Limitation: Constitutional debt limits which impose constraints on the amount of debt that a local government can incur. In California, those limits are as follows:

CALIFORNIA CONSTITUTION ARTICLE 16 PUBLIC FINANCE

SEC. 18. (a) No county, city, town, township, board of education, or school district, shall incur any indebtedness or liability in any manner or for any purpose exceeding in any year the income and revenue provided for such year, without the assent of two-thirds of the voters of the public entity voting at an election to be held for that purpose, except that with respect to any such public entity which is authorized to incur indebtedness for public school purposes, any proposition for the incurrence of indebtedness in the form

of general obligation bonds for the purpose of repairing, reconstructing or replacing public school buildings determined, in the manner prescribed by law, to be structurally unsafe for school use, shall be adopted upon the approval of a majority of the voters of the public entity voting on the proposition at such election; nor unless before or at the time of incurring such indebtedness provision shall be made for the collection of an annual tax sufficient to pay the interest on such indebtedness as it falls due, and to provide for a sinking fund for the payment of the principal thereof, on or before maturity, which shall not exceed forty years from the time of contracting the indebtedness.

The Supreme Court has found that certain kinds of transactions are "exceptions" to the debt limit, such as lease obligations, special fund obligations (revenue bonds) and obligations imposed by law (such as pension obligations).

Tax Allocation Bonds (TABs): TABs are special obligations that are secured by the allocation of tax increment revenues which are generated by increased property taxes from new construction in a designated redevelopment project area. With the dissolution of Redevelopment Agencies, only refunding TABs can now be issued.

Tax Anticipation Revenue Notes (TRANs): TRANs are short-term notes, the proceeds of which allow the City to cover the periods of cash shortfalls resulting from a mismatch between timing of revenues and timing of expenditures.

Tax-Exempt and Taxable Interest: The interest paid to investors on most state and local government obligations is exempt from federal income tax and typically for the host state's income tax, resulting in a lower cost of borrowing. The conditions under which municipalities can issue tax-exempt debt is governed by the Federal Tax Code and the regulations of the IRS. In some instances, a municipality will issue taxable debt to undertake a public project that does not meet all the requirements for tax-exemption.

Term Bonds: A bond issue where all bonds, or a portion of the issue equal to that which would mature over a period of two or more years, mature at a single time. Term bonds can be structured so that a portion of term maturity is mandated to be called or retired each year (called "sinking funds") to mirror a serial bond structure. The funds paid into the sinking fund each year may be used at that time to retire a portion of the term bonds ahead of their scheduled redemption.

Trustee: A banking institution, typically through a corporate trust department, which administers the funds specified in the trust indenture or agreement and implements the remedies provided in case of default. The Trustee acts on behalf of the bondholders based on the specific requirements in each trust indenture.

Underwriter: A dealer which purchases a new issue of bonds for resale to investors, either by negotiation with the issuer, or by award on the basis of a competitive bid.