
File ID: 2024-02039

1/21/2025

Consent Item 1.

Revised Debt Management Policy and Revised Supplemental Policy on Disclosure

File ID: 2024-02039

Location: Citywide

Recommendation: Adopt a **Resolution** approving the revised Debt Management Policy and the revised Supplemental Policy on Disclosure.

Contact: Brian Wong, Debt Manager, (916) 808-5811, bwong@cityofsacramento.org; John Colville, City Treasurer, (916) 808-8297, jcolville@cityofsacramento.org; Office of the City Treasurer

Presenter: None

Attachments:

- 1-Description/Analysis
- 2-Resolution
- 3-Exhibit A - Debt Management Policy
- 4-Exhibit B - Supplemental Policy on Disclosure
- 5-Debt Management Policy [Redline]
- 6-Supplemental Policy on Disclosure [Redline]

Description/Analysis

Issue Detail: The City's Debt Management Policy and the Supplemental Policy on Disclosure (the Policies) were most recently revised and approved on February 6, 2024. The Policies require periodic review by the City Treasurer's Office to ensure regulatory compliance or to clarify objectives and guidelines for the issuance and management of City debt.

The recommended revisions to the Policies will clarify certain ambiguities and articulate certain sections as necessary. Additionally, the Policies include new sections associated with Community Facilities District (CFD) bond issuance and development readiness requirements and Enhanced Infrastructure Financing District (EIFD) formation and impact on the City's General Fund.

Attached to this council report are both redlined and clean versions of the Policies.

Policy Considerations: Formal approval of a debt management policy and periodic updates of it are

recognized as a best practice by the Government Finance Officers Association and the California Debt and Investment Advisory Commission.

Economic Impacts: Not applicable.

Environmental Considerations: Approval of the recommendation is not a “project” subject to California Environmental Quality Act because it: (a) has no potential to cause a significant effect on the environment; (b) approves a continuing administrative activity (general policy and procedure making) and is thus excluded from the definition of a “project”; and (c) concerns governmental fiscal activities that do not involve any commitment to any specific project that may result in a potentially significant physical impact on the environment. (14 Cal. Code Regs. §§ 15061(b)(3), 15378(b)(2), 15378(b)(4), and 15378(b)(5).

Sustainability: Not applicable.

Commission/Committee Action: Not applicable.

Rationale for Recommendation: Approval of the Policies will clarify certain ambiguities, enhance certain sections that were not well developed, and add requirements before the City considers the issuance of CFD or EIFD bonds.

Financial Considerations: Approval of the Policies has no direct or financial effect or costs. It allows for the continued issuance of debt, clarifies the guidelines for the responsibilities of issuing the City’s debt, and identifies the principles and objectives that should guide the Council’s decisions to approve the issuance of debt.

Local Business Enterprise (LBE): Not applicable.

RESOLUTION NO. 2025-

Adopted by the Sacramento City Council

January 21, 2025

RESOLUTION APPROVING A REVISED DEBT MANAGEMENT POLICY AND A REVISED SUPPLEMENTAL POLICY ON DISCLOSURE

BACKGROUND

- A. Debt financing of City projects can be a cost-effective means of providing key facilities and services. The City has a long history of issuing multiple types of debt and working with internal and external stakeholders, including City departments, developers, residents, businesses, and other governmental agencies, to achieve the most cost-effective financing option for necessary projects or capital improvements.
- B. On August 24, 2010, the City Council adopted a Debt-Management Policy setting forth guiding principles for the City's issuance and management of debt. The City Council amended the Debt-Management Policy on June 2, 2011, by adding a Supplemental Policy Statement on Disclosure. The Debt-Management Policy applies to debt issued by the City, the Sacramento City Financing Authority, the Sacramento Public Financing Authority, and the Redevelopment Agency Successor Agency.
- C. On February 7, 2017, the City Council adopted Resolution No. 2017-0046 approving an amended Debt-Management Policy and an amended Supplemental Policy Statement of Disclosure (renamed as Supplemental Policy on Disclosure) to comply with Government Code section 8855, which required certain changes in debt policies adopted by local agencies.
- D. On June 19, 2018, the City Council adopted Resolution No. 2018-0251 approving an amended Debt-Management Policy and an amended Supplemental Policy on Disclosure to comply with the federal Tax Cuts and Jobs Act of 2017, which eliminated advance refunding of tax-exempt debt.
- E. On August 20, 2018, the Securities and Exchange Commission (the "**SEC**") adopted amendments to SEC Rule 15c2-12 that enhance transparency in the municipal-securities market and became effective on February 27, 2019 (the "**Amendments**"). The Amendments added the following events to the list of events for which an issuer or obligated person must provide notice to the bond market through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website:
- "Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a

financial obligation of the obligated person, any of which affect security holders, if material” (New ¶ (B)(5)(i)(C)(15) of SEC Rule 15c2-12).

- “Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties” (New ¶ (B)(5)(i)(C)(16) of SEC Rule 15c2-12).

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

- F. On April 23, 2019, the City Council adopted Resolution No. 2019-0122 approving an amended Debt-Management Policy that complies with the Amendments.
- G. As part of the FY2019-20 budget-development meetings in May and June 2019, the City Council asked the City Treasurer to identify a reasonable benchmark that could be used to determine whether additional lease-revenue bonds that are supported by the general fund should be authorized.
- H. The City Treasurer’s Office and the City Attorney’s Office, in consultation with Jones Hall, one of the law firms that serve as the City’s bond counsel, revised the City’s Debt-Management Policy (1) by adding a benchmark the City Council may use to determine whether additional lease-revenue bonds that are supported by the general fund should be authorized and (2) by clarifying ambiguous or vague language.
- I. On July 23, 2019, the City Council approved Resolution No. 2019-0281 approving a revised Debt-Management Policy.
- J. On December 10, 2019, the City Council approved Resolution No. 2019-0453 approving a revised Supplemental Policy on Disclosure.
- K. On June 30, 2020, the City Council approved Resolution No. 2020-0189 approving a revised Debt-Management Policy and a revised Supplemental Policy on Disclosure.
- L. On June 1, 2021, the City Council approved Resolution No. 2021-0156 approving a revised Debt-Management Policy and a revised Supplemental Policy on Disclosure.
- M. On October 19, 2021, the City Council approved Resolution No. 2021-0314 approving a revised Debt-Management Policy and a revised Supplemental Policy on Disclosure.
- N. On November 1, 2022, the City Council approved Resolution No. 2022-0329 approving a revised Debt Management Policy and a revised Supplemental Policy on Disclosure.
- O. On May 2, 2023, the City Council approved Resolution No. 2023-0111 approving a revised Debt Management Policy and a revised Supplemental Policy on Disclosure.

- P. On February 6, 2024, the City Council approved Resolution No. 2024-0031 approving a revised Debt Management Policy and a revised Supplemental Policy on Disclosure.
- Q. The City Treasurer's Office and the City Attorney's Office have revised the City's Debt Management Policy and the Supplemental Policy on Disclosure to further clarify certain ambiguities and to enhance certain sections that were not well developed. Additionally, new sections were added to identify requirements that must be met before moving forward with the issuance of CFD or EIFD bonds.

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

- Section 1. The revised Debt Management Policy attached as Exhibit A to this resolution is hereby approved.
- Section 2. The revised Supplemental Policy on Disclosure attached as Exhibit B to this resolution is hereby approved.
- Section 3. This resolution takes effect when adopted.

Table of Contents:

- Exhibit A – Debt Management Policy
Exhibit B – Supplemental Policy on Disclosure

**CITY OF SACRAMENTO
DEBT MANAGEMENT POLICY**

Adopted by the City Council on January 21, 2025

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 financing solutions for 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 financing 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 disclosure and reporting with respect to debt and associated credit ratings, as well as debt that matured or were refunded/defeased within the past three years.
 - (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 seek approval to issue 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 and eligible uses.
 - (J) Maintain a high-level of 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 (including debt issued by means of community facilities districts (“**CFDs**”) and debt the City issues for third parties – conduit financing or EIFD financing), the Sacramento City Financing Authority, the Sacramento Public Financing Authority,

and the Redevelopment Agency Successor Agency (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. While there may be exceptions to this Policy, such exceptions shall not result in the impairment of existing City programs, services, or staffing levels as noted in section 3.1(A) of this Policy or result in the impairment of the City’s ability to satisfy existing financial obligations. Other Post-Employment Benefits 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 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 with the bond market on the City’s behalf, with a policy and practice of full and timely disclosure. This includes communication with rating agencies, bond insurers, bond investors, and other debt-related service providers about the City’s financial condition; the financial condition of enterprise funds that secure the repayment of enterprise revenue bonds; the financial condition of the assessment fund that secures the repayment of the assessment revenue bonds; and the relevant financial information of CFDs that secure the repayment of special-tax revenue 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.* New-money 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 through CFDs 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’s Department of Finance by providing information to facilitate the feasibility analysis and due-diligence process before the issuance or incurrence of debt. In preparing and reviewing 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) identifies sources of funds for the payment of debt service in collaboration with the City's Department of Finance;
- (2) is responsible for determining the structure, timing, method of issuance (public vs. private placement, negotiated vs. competitive sale), and other terms of debt issuance;
- (3) evaluates the cost-benefit of obtaining any credit enhancement instruments as part of any debt issuance;
- (4) serves as the primary contact between the City and rating agencies, bond investors, and all other financial market participants;
- (5) manages non-attorney members of the financing team (see section 4.6 of this Policy, "Professional Assistance");
- (6) leads the development of all necessary financing documents;
- (7) presents the financing structure and financing documents to the City Council for approval;
- (8) manages the investment of debt proceeds in the acquisition and construction funds, bond-reserve funds, capitalized interest funds, and escrow funds;
- (9) 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
- (10) 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) collaborates with the City Treasurer's Office to identify sources of funds for the payment of debt service;
- (3) identifies sources of funds for project operations and maintenance;
- (4) participates in document preparation and review such as, but not limited to: the preliminary and final official statements, rating agency presentations, and investor roadshows;

- (5) participates in conference calls or meetings regarding the debt, e.g., due-diligence reviews, rating-agency presentations, and investor relations;
 - (6) provides timely, accurate, and complete information as needed to comply with post-issuance requirements, including tracking expenditures of tax-exempt debt proceeds to comply with arbitrage requirements, private-activity analysis, and annual reporting requirements; and
 - (7) notifies the City Treasurer's Office in writing 10 days 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 with the assistance of outside legal counsel;
 - (2) selects, retains, and manages outside legal counsel to assist with debt financing (e.g., bond counsel, disclosure counsel);
 - (3) informs City staff and the City Council regarding legal risk associated with any proposed debt issuance with the assistance of outside legal counsel as necessary;
 - (4) participates in document preparation and review; and
 - (5) participates in conference calls or meetings regarding due-diligence review.
- (D) The City Council—
- (1) unless waived by resolution (which may be the resolution approving the particular City debt), follows this Policy 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.* New-money debt will affect the long-term affordability of all outstanding and planned new-money debt of the same credit type; the operating and maintenance costs of debt-financed improvements will also affect the City's budget.
- (A) The pledge of repayment implicit in the issuance of new-money debt means that any future issuance of new-money debt is limited; hence, when assessing the financial feasibility of financing a proposed project or acquisition, the City Council must consider (1) the total of all outstanding debt, including overlapping debt and the proposed 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 sections 3.3(A), 3.3(B), or 3.3(D) below; (4) whether issuing new-money debt to finance the proposed project or acquisition will necessitate reductions in the number and types of programs and services the City provides to constituents or reductions in the number of City employees; and (5) whether issuing such new-money debt may impair the City's ability to satisfy unfunded liabilities or other non-discretionary obligations.
 - (B) Additionally, the necessary operating and maintenance 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, new-money 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 bond underwriters and one of the City's municipal advisors, to evaluate the long-term effects of new-money debt issuance in relation to meeting the City's near-term and long-term objectives.
- 3.3. *Feasibility for Non-Land-Secured Debt.* To ensure consistency with this Policy, the City Council shall not undertake or authorize the issuance or incurrence of 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 and maintaining the capital projects proposed to be financed. This analysis must address the reliability of revenues to support debt service of outstanding general-fund obligation and general-fund lease revenue debt, as well as the proposed debt financing. Total annual debt service for all general-fund obligation bonds and general-fund lease-revenue bonds, in each year they are outstanding, must not exceed 6% of the annual budgeted general-fund revenues minus 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) Transient Occupancy Tax (TOT) 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 TOT 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 TOT revenues that support debt service of outstanding TOT debt, as well as the proposed debt financing. Projected TOT revenues (Sacramento City Code chapter 3.28) must equal or exceed 175% of the maximum annual debt service for senior bonds and other senior parity obligations and 115% of the maximum annual debt service for all senior bonds, senior parity obligations, subordinate bonds, and subordinate parity obligations.
- (C) City's Enterprise Systems (Water, Wastewater, and Storm Drainage). The City Manager's Office and the City Treasurer's Office shall evaluate the affordability of new-money debt for enterprise systems. Enterprise system 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 new-money debt through the life of the new-money debt. At the time of debt issuance, the projected net system revenues of the enterprise system 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-money debt for enterprise system improvements will be evaluated as an integral part of the City's process for reviewing and setting rates for utilities services. In an effort to maintain the high investment-grade credit ratings for the City's Water and Wastewater Systems, while the required coverage ratios for the parity and aggregate obligation liens are 120% and 100%, respectively, it will be necessary to maintain coverage ratios consistent with the investment-grade

credit ratings determined by Standard & Poor's and Fitch Ratings. Maintaining high investment-grade credit ratings will help minimize interest costs in future new-money debt issuances, as well as refunding debt issuances for the City's Water and Wastewater Systems.

- (D) Conduit Financing by a Joint-Powers Authority. The City may agree to the issuance of bonds by various joint-powers authorities (e.g., California Enterprise Development Authority, California Municipal Finance Authority, California Public Finance Authority, California Statewide Communities Development 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 the issuance and on-going compliance of the bond issue with federal and state laws. City Treasurer's Office staff will rely upon information and documentation provided by the joint-powers authority or the prospective borrower of a project that desires to obtain tax-exempt financing. The City reserves the right to ask follow-up questions and request additional information as part of the review it deems appropriate. 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. Occasionally, 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 reserves the right to make its issuance of conduit bonds contingent upon cooperation of the governmental entity or the 501(c)(3) corporation and their team with a reasonable due diligence process. The City's preferred method is for a joint-powers authority, of which the City is already a member, to be the issuer of conduit debt.
- (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's 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. *Feasibility for Land-Secured Debt.* To ensure consistency with this Policy, the City Council shall not undertake or authorize the issuance or incurrence of debt—particularly new-money debt—without an assessment and recommendation of the City Manager’s Office and the City Treasurer’s Office.

- (A) Community Facilities Districts (CFD). The debt service coverage ratio of a CFD must equal or exceed 110% of the net special tax revenues (gross special tax revenues less priority administrative expenses) generated in each year the debt is outstanding, inclusive of parity obligations. The value-to-lien ratio shall be, at a minimum, three-to-one (3:1) taking into account all special tax and special assessment liens applicable to the subject property. Value may be established by reference to the assessed value of the subject property as determined by the Sacramento County Assessor’s Office or by an appraisal thereof. Appraisals, when used to establish property values, shall be performed by a state certified real estate appraiser, as defined in subdivision (c) of Section 11340 of the California Business and Professions Code, in accordance with the State of California appraisal standards and the Uniform Standards of Professional Appraisal Practice (“**USPAP**”). Such appraiser shall possess a Member of the Appraisal Institute (“**MAI**”) certification and be selected by the City. The definitions, standards and assumptions to be used in such an appraisal shall be the definitions, standards and assumptions set forth in the California Debt and Investment Advisory Commission’s (“**CDIAC**”) “Appraisal Standards for Land-Secured Financings,” May, 1994, revised July, 2004.
- (B) Market Absorption Study. A market absorption study may be required for projects that entail the following expected land use types:
 - (1) Conventional office – non-owner user, multi-tenant occupancy over 350,000 sq. ft. in one or more buildings;
 - (2) Medical office – non-owner user, multi-tenant occupancy over 250,000 sq. ft. in one or more buildings;
 - (3) Retail – anchored or non-anchored retail centers, multi-tenant occupancy over 100,000 sq. ft. in one or more buildings. Regional malls or retail power center are included in this category;
 - (4) Mixed-use developments – anchored or non-anchored developments, multi-tenant occupancy over 250,000 sq. ft. in one or more buildings; and
 - (5) Corporate campus developments – typically conventional office, research and development, governmental or industrial. This land use type is predominantly large owner user profile, 250,000 sq. ft. or more in buildings.

The City reserves the right to undertake an independent market absorption study in conjunction with any CFD bond financing.

The appraisal and/or market absorption study shall be coordinated by, under the direction of, and addressed to the City. All costs associated with the preparation of the appraisal report and/or market absorption study shall typically be paid by the project proponent(s) (i.e., the developer).

- (C) Appraisal Reviewer. The City reserves the right to engage an independent appraiser/appraisal firm (the “**Appraisal Reviewer**”) to perform a review of the draft appraisal report, final appraisal report, and any supporting data used by the appraiser of the CFD to determine compliance with USPAP and CDIAC standards and requirements. The City reserves the right to require a separate USPAP Standards 3 Review document to be included in the bond offering documents. The Appraisal Reviewer must possess similar qualifications as the appraiser of the CFD.
- (D) Independent Engineer. The City reserves the right to engage an independent licensed civil engineer or other consultants possessing similar expertise to estimate all land improvement (i.e., infrastructure) costs and summarize findings in a report. The independent licensed civil engineer’s report shall be coordinated by, under the direction of, and addressed to the City. All costs associated with the preparation of the independent licensed civil engineer’s report shall be paid by the project proponent(s) (i.e., the developer).
- (E) General CFD Requirements. With respect to any CFD, the following requirements shall apply:
 - (1) If the portion of the CFD (or improvement area or tax zone, or phase, as applicable) which is undeveloped property (as defined by reference to the rate and method of apportionment of special tax (“**RMA**”) as may be amended periodically) is responsible for 20 percent or more of the maximum special tax (as defined by reference to the RMA as may be amended periodically) levy in the fiscal year following the fiscal year in which the bonds are issued, the value-to-lien ratio for such undeveloped property shall be, at a minimum, three-to-one (3:1), taking into account all special tax and special assessment liens applicable to the such undeveloped property. Value may be established by reference to the assessed value of the subject property as determined by the Sacramento County Assessor’s Office or by an appraisal thereof. Such appraiser shall possess an MAI certification and be selected by the City.
 - (2) If the value-to-lien ratio required by the foregoing paragraph is not satisfied, prior to the publication of the Preliminary Official Statement for the bonds to investors, the owner or owners of the undeveloped property in the CFD (or improvement area, or tax zone, or phase, as applicable), shall deliver to the City or the bond trustee, an irrevocable instrument of credit from a financial institution rated “A” or better by Standard & Poor’s, Moody’s, or Fitch, or otherwise acceptable to the

City (a “**Security**”), or cash in-lieu thereof, in an amount equal to two times the maximum special tax that may be levied on such undeveloped property in the fiscal year following the fiscal year in which the bonds are issued

The Security shall name the City, or its designee, as a beneficiary and shall provide that the City, or its designee, may draw an amount equal to any delinquencies in payment of semiannual installments of the special taxes levied on such undeveloped property. The amount drawn on the Security shall be applied in the same manner and for the same purposes as the delinquent special taxes would have been applied, provided that the payment of a draw under the security will not be deemed to cure the delinquency in payment of the special taxes. If the City draws upon the letter of credit or other irrevocable instrument of credit, the owner or owners of the undeveloped property would be required to replenish the letter of credit to the previous letter of credit or irrevocable instrument of credit amount.

The Security shall be released when the owner or owners of the undeveloped property is/are responsible for less than 20 percent of the maximum special tax levy in the CFD (or improvement area, or tax zone, or phase, as applicable). In the event the Security is not renewed to continue to meet the requirements set forth above, the City may draw upon the full amount of the Security. Provided that there are not special tax delinquencies on the undeveloped property to which the Security relates, the City will return amounts drawn when the Security is renewed, replaced or cash in-lieu thereof is provided as set forth herein if such amounts are available in the special tax/redemption fund for the CFD (or improvement area, or tax zone, or phase, as applicable).

- (F) Minimizing Financial Risk. Before considering a request for bond issuance within a CFD, improvement area, or tax zone, the City will evaluate if the following development criteria have been met to minimize financial risk:
 - (1) The City will confirm there are no known impediments, restrictions, or uncertainties that could affect the development of taxable property within the CFD or improvement area. This includes ensuring that special tax revenues, which will secure debt service payments on the proposed bonds, are derived from stable, ongoing development.
 - (2) Debt Service Coverage for Residential-Only CFD Projects:
 - (a) Bonds for residential-only CFD or improvement areas will be structured to achieve a minimum 110% debt service coverage from net special tax revenues (after priority administrative expenses). This coverage will only consider revenue from parcels classified as Developed or Final Map properties at the time of issuance.

- (b) Alternatively, the City may allow for 100% debt service coverage from such properties if additional criteria are met to limit exposure from undeveloped parcels.
- (3) Minimum Development Completion Requirements for Residential Projects:
 - (a) At least 10% of the anticipated residential units at full buildout within the CFD, improvement area, or tax zone (for which bonds may be issued) must have been constructed and conveyed to end users.
 - (b) Final Subdivision Maps must be approved and recorded for at least 30% of all anticipated residential units within each subdivision within the CFD or improvement area.

- (4) Minimum Development Completion Requirements for Commercial Projects:
 - (a) For any CFD or improvement areas designated for commercial development (including rental apartment projects), building permits covering at least 30% of the planned building square footage must have been issued.
- (5) Mixed-Use Development Projects:
 - (a) For any CFD or improvement areas that include both residential and commercial elements, the City will set appropriate thresholds aligned with the residential and commercial criteria above, tailored to the specific project's characteristics.

These criteria are designed to ensure the CFD bonds are supported by developed or near-developed properties, reducing the City's financial exposure and promoting responsible project development before bond issuance.

- (G) EIFD Formation. Before initiating the formation of a new Enhanced Infrastructure Financing District (EIFD) and any associated debt issuance, the City will conduct a comprehensive feasibility analysis. This analysis will evaluate both the individual impact of the proposed EIFD and the potential issuance of EIFD debt on the City's General Fund, as well as the cumulative effect of all existing EIFD projects and debt, including the new proposal. During the formation process for each EIFD, the City will determine the amount and duration of property tax increment revenue allocated to the EIFD that would otherwise contribute to the General Fund. The allocation will be limited to ensure that core City services and essential needs continue to receive adequate funding. A cap shall be set to limit the amount of tax increment allocated to a specific EIFD in light of other tax increment allocated to other EIFDs such that a specific EIFD's formation does not have a significant impact on core City services and essential needs. This approach ensures that while EIFDs receive predictable, capped funding, the City's General Fund remains stable.

For each new EIFD, a minimum contribution from the tax increment revenue will be allocated to the General Fund to ensure it benefits from development in the EIFD area. In certain cases, the City may apply a phased revenue allocation approach, initially directing a larger portion of tax increment to the EIFD for infrastructure needs, with a gradual reallocation back to the General Fund over time.

3.5 *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 proposed project, or the proposed project can be completed in phases.
- (2) Utilizing projected revenues and fund balances to complete the financing of the proposed project may not necessarily materially impact metrics such as days cash on-hand or debt service coverage ratio, which would not lead to an impairment of the credit ratings outlook or credit ratings of any City Debt.
- (3) Existing debt levels might adversely affect the City's credit ratings outlook or credit ratings.
- (4) Market conditions are unfavorable or present difficulties in marketing the proposed debt.
- (5) The proposed project's useful life is less than five years.
- (6) Debt financing would be the preferred method, but circumstances require delaying the financing.
- (7) Lack of clarity regarding when funding for improvements would be needed.

(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 proposed 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 proposed 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.
- (5) Maintains generational equity.

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. Portions of 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, to fund services or programs, or to fund maintenance-related costs. The final maturity of long-term debt should not exceed 40 years. The following are the types of long-term debt that may be issued or incurred by the City or on which staff of the City Treasurer's Office may work:
- (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 issue special-tax revenue bonds to finance the construction or acquisition of various improvements identified in the Rate and Method of Apportionment of Special Tax (as may be amended periodically) for each CFD. The Mello-Roos Act provides an efficient means of financing certain 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 public or non-public capital 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 capital improvements. The City has used the Marks-Roos Act to issue refunding bonds for CFDs as well as for three redevelopment project areas when new-money debt was issued concurrently. Voter approval is not required.
 - (3) 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. Additionally, assessment revenue bonds may be issued by the Sacramento Tourism Infrastructure District ("**STID**") for eligible improvements in accordance with the STID

Management District Plan and the Property and Business Improvement District Law of 1994.

- (4) General-Obligation Bonds. These bonds may be issued by governmental entities that have the legal authority to levy ad valorem property taxes and other charges at whatever rate and amount is necessary to pay the debt. Under article XVI, section 18, of the California Constitution, these bonds may only be issued with two-thirds voter approval.
- (5) Enhanced Infrastructure Financing District Bonds. These bonds may be approved by a public financing authority (“**PFA**”) established for the purpose of managing the affairs of the EIFD. While the PFA will be comprised of members appointed by the City (certain City Council members and the City Council’s public designees), the PFA oversees a separate legal entity. The requirements of the EIFD and issuing EIFD bonds are identified in Government Code sections 53398.5 to 53398.88.

In the event an EIFD desires to issue bonds, the City Treasurer’s Office may be asked to handle pre-issuance and issuance-related matters on behalf of an EIFD. The City Treasurer’s Office will manage the issuance of such EIFD bonds in accordance with this Policy in a manner conducive to obtain the lowest cost of borrowing possible.

- (6) Certificates of Participation and Lease-Revenue Bonds. These debt instruments are secured by a lease-leaseback arrangement between the City and another public entity. The City uses its general operating revenues (which are not expressly pledged) to pay 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.
- (7) Enterprise Revenue Bonds. These bonds are payable from revenue generated by a City enterprise system, such as water and wastewater utilities. Because debt service on revenue bonds is paid solely from enterprise system 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.

- (8) TOT Revenue Bonds. In the case of TOT revenue bonds, such bonds are generally payable from the special tax portion of TOT the City collects less the annual transfer to Visit Sacramento.
 - (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 provide the financing of 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 a 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 by the City 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) Grant Anticipation Notes (“**GANs**”). These are short-term interest-bearing notes issued in anticipation of the receipt of grants. The City may issue GANs as a source of interim financing when the City Treasurer determines that doing so is prudent and advantageous to the City and the upcoming receipt of grants is guaranteed. Voter approval is not required.

- (4) Lease-Purchase Financings. These financings may be used for the short-term financing of equipment. The term of a lease-purchase agreement is typically less than 10 years but may be as long as 15 years – depending on the useful life of the equipment to be financed. 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.
 - (5) 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 on the short end of the yield curve in a normal interest rate environment are lower than the interest 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. In such case, the City Treasurer’s Office may seek guidance from one of the City’s municipal advisors.
- (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 optionally redeemed 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 to achieve net-present-value savings of at least 5%, but this is not a requirement.
- (4) When appropriate, the City may consider the tender and refinancing of tax-exempt or taxable bonds. The tender should attract tender participation of at least 20% to provide net present-value savings. The minimum tender participation rate of 20% is a goal rather than a requirement. In general, the goal will be to achieve net-present-value savings of at least 5%, but this is not a requirement.

Additionally, the anticipated economic benefit to the City related to the tender – such as estimated cashflow or net present value savings in dollars shall be determined and specified prior to the authorization of the issuance of the tender bonds and will be included in the City Council staff report.

- (5) 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 projected to be 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 the 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 method to offer City Debt to prospective 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 appointed 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. Criteria (C) is especially important to certain credit types such as special-tax revenue bonds, where there is a need to properly describe the background or the "story" of the particular special-tax revenue bonds for each financing so investors can have a better understanding of the risks of the financing and the project. 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, separately managed accounts, 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 with input from the City Treasurer's Office as appropriate) 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 their 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 appointed 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 special-tax revenue bonds issued through CFDs, as well as the issuance of other non-rated bonds if circumstances warrant.

The City Treasurer with guidance from one of the City’s municipal advisors, may incorporate certain credit or bond structuring features to mitigate potential risk – including but not limited to determining the appropriateness of obtaining credit enhancement, reducing the par amount of the issuance of bonds (downsized from the par amount that could be generated in maximum bonding capacity), and supplemental reserves.

In the context of non-rated land-secured bonds, the City reserves the right to not move forward with the issuance of debt requested by a developer for any reason.

At a minimum, key information must be provided to the City for review and consideration. The items include but are not limited to: recorded final subdivision maps in accordance with section 3.4 of this Policy, approved tentative maps on the balance of the CFD, non-redacted purchase and sale agreements for land sales of taxable property within the district within at least the last three years of the request to form the district, and definitive development plans including unit mix, village size and village phasing. Furthermore, the City reserves the right to not move forward with a financing if the development does not have complete or substantially complete backbone infrastructure and street improvements on at least the first phases of development (all in-ground utilities, streets, curbs, gutters, sidewalks), and is in a state of development ready to pull building permits. The

* 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 **F3** or higher for short-term debt and **BBB-** or higher for long-term debt.

City will not seek a rating for any series of 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.

The Security shall be released when the owner or owners of undeveloped property is/are responsible for less than 20 percent of the maximum special tax levy in the CFD (or improvement area, or tax zone, or phase, as applicable). In the event the Security is not renewed to continue to meet the requirements set forth above, the City may draw upon the full amount of the Security. Provided that there are not special tax delinquencies on the undeveloped property to which the Security relates, the City will return amounts drawn when the Security is renewed, replaced or cash in-lieu thereof is provided as set forth herein if such amounts are available in the special tax/redemption fund for the CFD (or improvement area, or tax zone, or phase, as applicable).

- 5.3 *Credit Enhancement.* The City Treasurer's Office will work with one of the City's municipal advisors and with the appointed 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 proposed 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 appointed 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, having a reserve partially financed with bond proceeds and partially satisfied by a surety reserve policy, or incorporating a debt service reserve based on a modified three-prong reserve test (26 C.F.R. § 1.148-2(f)(2))—for example, set at 50% of the maximum annual debt service or 10% of the outstanding principal.
- 5.5 *Fixed-Rate Debt.* The City's preferred interest-rate mode is fixed-rate.
- 5.6 *Variable-Rate Debt.* The City may issue variable-rate debt—i.e., debt that pays interest at a rate that resets 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. The City Treasurer's Office will evaluate, with a written analysis provided by one of the City's municipal advisors, the use of variable-rate debt on a case by-case basis to determine whether the potential benefits are sufficient to offset the costs of any associated potential risks and whether the variable-rate debt is consistent with federal and state law and financially prudent.
- 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, with a written analysis provided

by a municipal advisor, the use of derivatives on a case by-case basis to determine whether the potential benefits are sufficient to offset the costs of any associated potential risks 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 level 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 par amount less than \$10 million. As specified in section 5.2 of this Policy, the City reserves the right to not move forward with the issuance of debt requested by any developer for any reason.

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 *Federal Income Tax Compliance.* The City Treasurer's Office is responsible for keeping all records needed to comply with federal 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 be requested to

prepare an interim arbitrage-rebate report at least once every 12 months until all proceeds deposited in the project fund (or acquisition and construction fund in the case of CFD financings) have been expended; if, however, the proceeds remaining in the project fund (or acquisition and construction fund) are equal to or less than 5% of the proceeds deposited into the project fund (or acquisition and construction fund), 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, as outlined in the tax certificate of the debt issue.

- (2) After the construction proceeds have been fully expended or the balance in the project fund (or acquisition and construction fund) has fallen below 5% of the proceeds deposited into the project fund (or the acquisition and construction fund), the City's arbitrage consultant will be requested to prepare an interim arbitrage-rebate report on each five-year anniversary of the issue date of the bonds, or more frequently if warranted (such as in the case of refundings).
- (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 (or acquisition and construction 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 of the refunded

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

Attachment A
Supplemental Policies

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

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

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

City of Sacramento Debt Management Policy – Supplemental Policy on Disclosure (Adopted on June 2, 2011, by Resolution No. 2011-322 and updated on February 7, 2017, by Resolution No. 2017-0046; on June 19, 2018, by Resolution No. 2018-0251; 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; June 1, 2021, by Resolution No. 2021-0156; and on October 19, 2021, by Resolution No. 2021-0314; on November 1, 2022, by Resolution No. 2022-0329; on May 2, 2023, by Resolution No. 2023-0111); and on February 6, 2024, by Resolution No. 2024-0031.

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

Adopted by the City Council on January 21, 2025

1. Introduction

1.1 This Supplemental Policy on Disclosure (“**Policy**”) governs the City’s fulfillment of its disclosure obligations related to municipal securities issued by the City or by related entities such as the Sacramento City Financing Authority, the Sacramento Public Financing Authority, and the Redevelopment Agency Successor Agency. In the event an Enhanced Infrastructure Financing District (“**EIFD**”) formed by the City issues bonds, the City, specifically the Office of the City Treasurer, may be asked to handle post issuance matters including continuing disclosure for EIFD bonds. While an EIFD is a separate legal entity from the City with a separate governing body from the City Council, if City staff is responsible with the continuing disclosure requirements for EIFD bonds, City staff (specifically City Treasurer’s Office staff) will do so in accordance with this Policy.

(A) The City and its related entities issue debt in the municipal-bond market from time to time. When bonds are issued, the City, whether acting for itself or for a related entity, is obligated to disclose all material information in compliance with federal securities laws, including the Securities Act of 1933, the Securities and Exchange Act of 1934, Rule 10b-5 of the Securities and Exchange Commission (the “**SEC**”), and Rule 15c2-12 of the SEC as amended. California Government Code sections 8855 and 53359.5 require certain disclosures to the California Debt and Investment Advisory Commission of the California State Treasurer’s Office, and Government Code sections 12463.2, 53891, 53892, 53892.2, and 53892.3 require certain disclosures to the California State Controller’s Office.

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

- The SEC could bring civil actions charging that disclosure was negligent, reckless, or intentionally fraudulent; in addition, the SEC could refer cases to the U.S. Department of Justice for criminal prosecution.
- The SEC could impose cumbersome procedures and oversight on the City as conditions for settling civil actions.
- The City could suffer adverse publicity, which might reduce market access and investor acceptance.

- The credit ratings outlook or the credit ratings on the City’s municipal securities could be downgraded, resulting in increased costs in future issuances.
 - City officials could face personal fines for violations of securities laws.
- (C) Sound disclosure practices can provide both tangible and intangible benefits, including the following:
- Enhanced credibility in the municipal-bond market.
 - Transparency with rating agencies, bond insurers, current bondholders, and prospective bond investors.
 - Improved decision making for prospective bond investors.
 - Increased numbers and types of bond investors who purchase the City’s bonds in the primary and secondary markets.
 - Demonstrated City commitment to providing full, accurate, and timely disclosure to rating agencies, bond insurers, current bondholders, and other stakeholders.
 - The potential for a lower overall cost of borrowing.

1.2 Scope of Policy. This policy applies to City information and documents, including the following, that a reasonable bond investor would consider significant or useful when deciding whether to invest in the City’s bonds:

- (A) Initial-disclosure documents, i.e., preliminary and final official statements.
- (B) Continuing-disclosure documents, i.e., annual financial information, required event notices, and voluntary notices.
- (C) Miscellaneous reports and presentations to the public.

2. **Governing Authority, Point of Contact, and Responsibility**

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

2.2 Point of Contact. Either the City Treasurer or the Debt Manager will be the City's point of contact for disclosure, primarily responsible not only for developing and distributing information but also for determining the materiality of information, based in part by guidance by the City Attorney's Office and the City's disclosure counsel.

2.3 Responsibility.

(A) The City Treasurer or the Debt Manager shall oversee all aspects of disclosure. As such, the City Treasurer or the Debt Manager shall review the form and content of the City's documents and materials prepared, issued, or distributed in connection with the City's disclosure obligations relating to its municipal securities. Those documents and materials include not just preliminary and final official statements but also the following:

- Annual financial information provided to the Municipal Securities Rulemaking Board ("**MSRB**") in accordance with SEC Rule 15c2-12 as may be amended periodically and any applicable continuing-disclosure agreement or certificate (except that the City Treasurer and the Debt Manager are not responsible for the form and content of the City's annual comprehensive financial report, which is prepared by the City's Accounting Division and reviewed and confirmed by the City's external auditor).
- Event notices provided to the MSRB in accordance with SEC Rule 15c2-12 as may be amended periodically and any applicable continuing-disclosure agreement or certificate.
- Any other information provided to the MSRB for use by investors in making investment decisions.

Such information and notices will typically be provided through the MSRB's Electronic Municipal Market Access website (known as "**EMMA**"), which the SEC has designated as the official source for municipal securities data and disclosure documents.

The City reserves the right to utilize certain services provided by a third-party dissemination agent such as the upload of disclosure filings to EMMA, however as stated in section (C) below, the preparation, review, and final approval of all disclosure filings are the responsibility of the City.

(B) Along with the City Treasurer and their staff, the City Attorney and the City Manager shall serve as integral members of the financing team, each responsible, as appropriate, for ensuring and certifying to the accuracy of information disclosed to the municipal-bond market.

(C) The City is responsible for the content of its disclosure documents. The City Treasurer, City Attorney, and City Manager and their appointed or delegated staff shall ensure that the use of outside professionals for their respective

areas of expertise is appropriate and that reliance upon outside professionals is reasonable and not excessive. The City Treasurer's Office is responsible for the completeness, accuracy, and timeliness of information uploaded to EMMA, except with respect to certain information filed by developers and merchant builders or their respective consultants, in accordance with the respective developer's or merchant builder's limited scope continuing disclosure requirements for certain special-tax revenue bonds.

- (D) The City Treasurer or the Debt Manager shall ensure that subject-matter experts, including City staff with relevant knowledge or expertise, are involved in developing and periodically reviewing and updating disclosure documents. For example, when obligations are secured by specific revenues, such as water or wastewater revenues, City staff who are knowledgeable about the relevant enterprise utility must be involved.
- (E) The City Treasurer or the Debt Manager, in collaboration with the City Attorney, shall arrange for the engagement of disclosure counsel to assist the City in complying with disclosure requirements, as warranted. The City Treasurer or the Debt Manager shall also arrange for the periodic training of City Council members and City Council members' staff (as determined by the City Treasurer or the Debt Manager), executive management and other employees who may contribute to or have involvement with the City's primary offerings or continuing disclosure obligations, regarding the City's disclosure obligations under federal securities laws. Such training may take place via a webinar/recording accessible on the Acumen or other training platform utilized by the City.
- (F) City officers and employees serving as financing-team members are responsible for reviewing and commenting on draft documents. As part of their review, they must determine whether all material information—including confidential or politically sensitive information—has been included and is both accurate and relevant.
- (G) City officers and employees and the officers and employees of related entities shall promptly provide all information, assurances, and certifications the City Treasurer or the Debt Manager requests for compliance with federal securities laws. The City Manager and the City Attorney shall be required to promptly and fully respond to those requests.

3. Certifications

- 3.1 In connection with the City Council's approval of preliminary or final official statements for publicly issued municipal securities, an appropriate City officer or employee shall certify in writing, to the best of their knowledge, that the 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 light of the circumstances under which they were made, not misleading.

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

CITY OF SACRAMENTO DEBT MANAGEMENT POLICY

Adopted by the City Council on ~~February 6~~ January 21, 2024~~2025~~

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-~~
~~financing~~ 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 disclosure and reporting with respect to debt and associated credit ratings, as well as debt that matured or were refunded/defeased within the past three years.
 - (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 seek approval to issue 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 and eligible uses.
 - (J) Maintain a high-level of 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 (including debt issued by means of community facilities districts (“**CFDs**”) and debt the City issues for third parties – conduit financing or EIFD financing), the

Sacramento City Financing Authority, the Sacramento Public Financing Authority, and the Redevelopment Agency Successor Agency (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. While there may be exceptions to this Policy, such exceptions shall not result in the impairment of existing City programs, services, or staffing levels as noted in section 3.1(A) of this Policy or result in the impairment of the City’s ability to satisfy existing financial obligations. Other Post-Employment Benefits 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 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 with the bond market on the City’s behalf, with a policy and practice of full and timely disclosure. This includes communication with rating agencies, bond insurers, bond investors, and other debt-related service providers about the City’s financial condition; the financial condition of enterprise funds that secure the repayment of enterprise revenue bonds; the financial condition of the assessment fund that secures the repayment of the assessment revenue bonds; and the relevant financial information of CFDs that secure the repayment of special-tax revenue 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.* New-money 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 through CFDs 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’s Department of Finance by providing information to facilitate the feasibility analysis and due-diligence process before the issuance or incurrence of debt. In preparing and reviewing 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) identifies sources of funds for the payment of debt service in collaboration with the City's Department of Finance;
- (2) is responsible for determining the structure, timing, method of issuance (public vs. private placement, negotiated vs. competitive sale), and other terms of debt issuance;
- (3) evaluates the cost-benefit of obtaining any credit enhancement instruments as part of any debt issuance;
- ~~(3)~~(4) serves as the primary contact between the City and rating agencies, bond investors, and all other financial market participants;
- ~~(4)~~(5) manages non-attorney members of the financing team (see section 4.6 of this Policy, "Professional Assistance");
- ~~(5)~~(6) leads the development of all necessary financing documents;
- ~~(6)~~(7) presents the financing structure and financing documents to the City Council for approval;
- ~~(7)~~(8) manages the investment of debt proceeds in the acquisition and construction funds, bond-reserve funds, capitalized interest funds, and escrow funds;
- ~~(8)~~(9) 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
- ~~(9)~~(10) 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) collaborates with the City Treasurer's Office to identify sources of funds for the payment of debt service;
- (3) identifies sources of funds for project operations and maintenance;
- (4) participates in document preparation and review such as, but not limited to: the preliminary and final official statements, rating agency presentations, and investor roadshows;

- (5) participates in conference calls or meetings regarding the debt, e.g., due-diligence reviews, rating-agency presentations, and investor relations;
 - (6) provides timely, accurate, and complete information as needed to comply with post-issuance requirements, including tracking expenditures of tax-exempt debt proceeds to comply with arbitrage requirements, private-activity analysis, and annual reporting requirements; and
 - (7) notifies the City Treasurer's Office in writing 10 days 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 with the assistance of outside legal counsel;
 - (2) selects, retains, and manages outside legal counsel to assist with debt financing (e.g., bond counsel, disclosure counsel);
 - (3) informs City staff and the City Council regarding legal risk associated with any proposed debt issuance with the assistance of outside legal counsel as necessary;
 - (4) participates in document preparation and review; and
 - (5) participates in conference calls or meetings regarding due-diligence review.
- (D) The City Council—
- (1) unless waived by resolution (which may be the resolution approving the particular City debt), follows this Policy 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.* 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 and maintenance costs of debt-financed improvements will also affect the City's budget.
- (A) The pledge of repayment implicit in the issuance of new-money debt means that any future issuance of new-money debt is limited; hence, when assessing the financial feasibility of financing a proposed project or acquisition, the City Council must consider (1) the total of all outstanding debt, including overlapping debt and the proposed 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 sections~~ 3.3(A), 3.3(B), or 3.3(D) below; (4) whether issuing new-money debt to finance the proposed project or acquisition will necessitate reductions in the number and types of programs and services the City provides to constituents or reductions in the number of City employees; and (5) whether issuing such new-money debt may impair the City's ability to satisfy unfunded liabilities or other non-discretionary obligations.
- (B) Additionally, the necessary ~~maintenance and~~ operating and maintenance 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, new-money 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 bond underwriters and one of the City's municipal advisors, to evaluate the long-term effects of new-money debt issuance in relation to meeting the City's near-term and long-term objectives.
- 3.3. *Feasibility for Non-Land-Secured Debt.* To ensure consistency with this Policy, the City Council shall not undertake or authorize the issuance or incurrence of 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 and maintaining the capital projects proposed to be financed. This analysis ~~may be performed formally or informally as determined by the City Treasurer and~~ must ~~also~~ address the reliability of revenues to support debt service of outstanding general-fund obligation and general-fund lease revenue debt, as well as the proposed debt financing. Total annual debt service for all general-fund obligation bonds and general-fund lease-revenue bonds, in each year they are outstanding, must not exceed 6% of the annual budgeted general-fund revenues minus 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) Transient Occupancy Tax (TOT) 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 TOT 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 TOT revenues that support debt service of outstanding TOT debt, as well as the proposed debt financing. Projected TOT revenues (Sacramento City Code chapter 3.28) must equal or exceed 175% of the maximum annual debt service for senior bonds and other senior parity obligations and 115% of the maximum annual debt service for all senior bonds, senior parity obligations, subordinate bonds, and subordinate parity obligations.
- (C) City's Enterprise Systems (Water, Wastewater, and Storm Drainage). The City Manager's Office and the City Treasurer's Office shall evaluate the affordability of new-money debt for enterprise systems. Enterprise system 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 new-money debt through the life of the new-money debt. At the time of debt issuance, the projected net system revenues of the enterprise system 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-money debt for enterprise system improvements will be evaluated as an integral part of the City's process for reviewing and setting rates for utilities services. In an

effort to maintain the high investment-grade credit ratings for the City's Water and Wastewater Systems, while the required coverage ratios for the parity and aggregate obligation liens are 120% and 100%, respectively, it will be necessary to maintain coverage ratios consistent with the investment-grade credit ratings determined by Standard & Poor's and Fitch Ratings. Maintaining high investment-grade credit ratings will help minimize interest costs in future new-money debt issuances, as well as refunding debt issuances for the City's Water and Wastewater Systems.

- (D) Conduit Financing by a Joint-Powers Authority. The City may agree to the issuance of bonds by various joint-powers authorities (e.g., California Enterprise Development Authority, California Municipal Finance Authority, California Public Finance Authority, California Statewide Communities Development 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 the issuance and on-going compliance of the bond issue with federal and state laws. City Treasurer's Office staff will rely upon information and documentation provided by the joint-powers authority or the prospective borrower of a project that desires to obtain tax-exempt financing. The City reserves the right to ask follow-up questions and request additional information as part of the review it deems appropriate. 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. Occasionally, 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 reserves the right to make its issuance of conduit bonds contingent upon cooperation of the governmental entity or the 501(c)(3) corporation and their team with a reasonable due diligence process. The City's preferred method is for a joint-powers authority, of which the City is already a member, to be the issuer of conduit debt.
- (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's 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. Feasibility for Land-Secured Debt. To ensure consistency with this Policy, the City Council shall not undertake or authorize the issuance or incurrence of debt—particularly new-money debt—without an assessment and recommendation of the City Manager's Office and the City Treasurer's Office.

~~(B)~~(A) Community Facilities Districts (CFD). The debt service coverage ratio of a CFD must equal or exceed 110% of the net special tax revenues (gross special tax revenues less priority administrative expenses) generated in each year the debt is outstanding, inclusive of parity obligations. The value-to-lien ratio shall be, at a minimum, three-to-one (3:1) taking into account all special tax and special assessment liens applicable to the subject property. Value may be established by reference to the assessed value of the subject property as determined by the Sacramento County Assessor's Office or by an appraisal thereof. Appraisals, when used to establish property values, shall be performed by a state certified real estate appraiser, as defined in subdivision (c) of Section 11340 of the California Business and Professions Code, in accordance with the State of California appraisal standards and the Uniform Standards of Professional Appraisal Practice ("USPAP"). Such appraiser shall possess a Member of the Appraisal Institute ("MAI") certification and be selected by the City. The definitions, standards and assumptions to be used in such an appraisal shall be the definitions, standards and assumptions set forth in the California Debt and Investment Advisory Commission's ("CDIAC") "Appraisal Standards for Land-Secured Financings," May, 1994, revised July, 2004.

(B) Market Absorption Study. A market absorption study may be required for projects that entail the following expected land use types:

- (1) Conventional office – non-owner user, multi-tenant occupancy over 350,000 sq. ft. in one or more buildings;
- (2) Medical office – non-owner user, multi-tenant occupancy over 250,000 sq. ft. in one or more buildings;
- (3) Retail – anchored or non-anchored retail centers, multi-tenant occupancy over 100,000 sq. ft. in one or more buildings. Regional malls or retail power center are included in this category;
- (4) Mixed-use developments – anchored or non-anchored developments, multi-tenant occupancy over 250,000 sq. ft. in one or more buildings; and

(5) Corporate campus developments – typically conventional office, research and development, governmental or industrial. This land use type is predominantly large owner user profile, 250,000 sq. ft. or more in buildings.

~~Conventional office – non-owner user, multi-tenant occupancy over 350,000 sq. ft. in one or more buildings;~~

~~Medical office – non-owner user, multi-tenant occupancy over 250,000 sq. ft. in one or more buildings;~~

~~Retail – anchored or non-anchored retail centers, multi-tenant occupancy over 100,000 sq. ft. in one or more buildings. Regional malls or retail power center are included in this category;~~

~~Mixed-use developments – anchored or non-anchored developments, multi-tenant occupancy over 250,000 sq. ft. in one or more buildings; and~~

~~Corporate campus developments – typically conventional office, research and development, governmental or industrial. This land use type is predominantly large owner user profile, 250,000 sq. ft. or more in buildings.~~

The City reserves the right to undertake an independent market absorption study in conjunction with any CFD bond financing.

The appraisal and/or market absorption study shall be coordinated by, under the direction of, and addressed to the City. All costs associated with the preparation of the appraisal report and/or market absorption study shall typically be paid by the project proponent(s) (i.e., the developer).

(C) Appraisal Reviewer. The City reserves the right to engage an independent appraiser/appraisal firm (the “Appraisal Reviewer”) to perform a review of the draft appraisal report, final appraisal report, and any supporting data used by the appraiser of the CFD to determine compliance with USPAP and CDIAC standards and requirements. The City reserves the right to require a separate USPAP Standards 3 Review document to be included in the bond offering documents. The Appraisal Reviewer must possess similar qualifications as the appraiser of the CFD.

(D) Independent Engineer. The City reserves the right to engage an independent licensed civil engineer or other consultants possessing similar expertise to estimate all land improvement (i.e., infrastructure) costs and summarize findings in a report. The independent licensed civil engineer’s report shall be coordinated by, under the direction of, and addressed to the City. All costs associated with the preparation of the independent licensed

civil engineer's report shall be paid by the project proponent(s) (i.e., the developer).

General CFD Requirements. With respect to any CFD, the following requirements shall apply:

- ~~(C) The City reserves the right to engage an independent appraiser/appraisal firm (the “**Appraisal Reviewer**”) to perform a review of the draft appraisal report, final appraisal report, and any supporting data used by the appraiser of the CFD to determine compliance with USPAP and CDIAC standards and requirements. The City reserves the right to require a separate USPAP Standards 3 Review document to be included in the bond offering documents. The Appraisal Reviewer must possess similar qualifications as the appraiser of the CFD. All costs associated with the preparation of the appraisal review report shall typically be paid by the project proponent(s) (i.e., the developer).~~
- ~~(D) The City reserves the right to engage an independent licensed civil engineer or other consultants possessing similar expertise to estimate all land-improvement (i.e., infrastructure) costs and summarize findings in a report. The independent licensed civil engineer's report shall be coordinated by, under the direction of, and addressed to the City. All costs associated with the preparation of the independent licensed civil engineer's report shall be paid by the project proponent(s) (i.e., the developer).~~
- ~~(E) With respect to any CFD which is formed after April 1, 2023, the following requirements shall apply:
 - (1) If the portion of the CFD (or improvement area or tax zone, or phase, as applicable) which is undeveloped property (as defined by reference to the rate and method of apportionment of special tax (“RMA”) as may be amended periodically) is responsible for 20 percent or more of the maximum special tax (as defined by reference to the RMA as may be amended periodically) levy in the fiscal year following the fiscal year in which the bonds are issued, the value-to-lien ratio for such undeveloped property shall be, at a minimum, three-to-one (3:1), taking into account all special tax and special assessment liens applicable to the such undeveloped property. Value may be established by reference to the assessed value of the subject property as determined by the Sacramento County Assessor's Office or by an appraisal thereof. Such appraiser shall possess an MAI certification and be selected by the City.
 - (2) If the value-to-lien ratio required by the foregoing paragraph is not satisfied, prior to the publication of the Preliminary Official Statement for the bonds to investors, the owner or owners of the undeveloped property in the CFD (or improvement area, or tax zone, or phase, as applicable), shall deliver to the City or the bond trustee, an irrevocable~~

instrument of credit from a financial institution rated “A” or better by Standard & Poor’s, Moody’s, or Fitch, or otherwise acceptable to the City (a “Security”), or cash in-lieu thereof, in an amount equal to two times the maximum special tax that may be levied on such undeveloped property in the fiscal year following the fiscal year in which the bonds are issued

~~If the portion of the CFD (or improvement area or tax zone, or phase, as applicable) which is undeveloped property (as defined by reference to the rate and method of apportionment of special tax as may be amended periodically) is responsible for 20 percent or more of the maximum special tax (as defined by reference to the rate and method of apportionment of special tax as may be amended periodically) levy in the fiscal year following the fiscal year in which the bonds are issued, the value-to-lien ratio for such undeveloped property shall be, at a minimum, three to one (3:1), taking into account all special tax and special assessment liens applicable to the such undeveloped property. Value may be established by reference to the assessed value of the subject property as determined by the Sacramento County Assessor’s Office or by an appraisal thereof. Such appraiser shall possess an MAI certification and be selected by the City.—~~

~~If, the value-to-lien ratio required by the foregoing paragraph is not satisfied, prior to the publication of the Preliminary Official Statement for the bonds to investors, the owner or owners of the undeveloped property in the CFD (or improvement area, or tax zone, or phase, as applicable), shall deliver to the City or the bond trustee, an irrevocable instrument of credit from a financial institution rated “A” or better or otherwise acceptable to the City (a “Security”), or cash in-lieu thereof, in an amount equal to two times the maximum special tax that may be levied on such undeveloped property in the fiscal year following the fiscal year in which the bonds are issued.—~~

The Security shall name the City, or its designee, as a beneficiary and shall provide that the City, or its designee, may draw an amount equal to any delinquencies in payment of semiannual installments of the special taxes levied on such undeveloped property. The amount drawn on the Security shall be applied in the same manner and for the same purposes as the delinquent special taxes would have been applied, provided that the payment of a draw under the security will not be deemed to cure the delinquency in payment of the special taxes. If the City draws upon the letter of credit or other irrevocable instrument of credit, the owner or owners of the undeveloped property would be required to replenish the letter of credit to the previous letter of credit or irrevocable instrument of credit amount.

The Security shall be released when the owner or owners of the undeveloped property is/are responsible for less than 20 percent of the

maximum special tax levy in the CFD (or improvement area, or tax zone, or phase, as applicable). In the event the Security is not renewed to continue to meet the requirements set forth above, the City may draw upon the full amount of the Security. Provided that there are not special tax delinquencies on the undeveloped property to which the Security relates, the City will return amounts drawn when the Security is renewed, replaced or cash in-lieu thereof is provided as set forth herein if such amounts are available in the special tax/redemption fund for the CFD (or improvement area, or tax zone, or phase, as applicable).

(F) Minimizing Financial Risk. Before considering a request for bond issuance within a CFD, improvement area, or tax zone, the City will evaluate if the following development criteria have been met to minimize financial risk:

(1) The City will confirm there are no known impediments, restrictions, or uncertainties that could affect the development of taxable property within the CFD or improvement area. This includes ensuring that special tax revenues, which will secure debt service payments on the proposed bonds, are derived from stable, ongoing development.

(2) Debt Service Coverage for Residential-Only CFD Projects:

(a) Bonds for residential-only CFD or improvement areas will be structured to achieve a minimum 110% debt service coverage from net special tax revenues (after priority administrative expenses). This coverage will only consider revenue from parcels classified as Developed or Final Map properties at the time of issuance.

(b) Alternatively, the City may allow for 100% debt service coverage from such properties if additional criteria are met to limit exposure from undeveloped parcels.

(3) Minimum Development Completion Requirements for Residential Projects:

(a) At least 10% of the anticipated residential units at full buildout within the CFD, improvement area, or tax zone (for which bonds may be issued) must have been constructed and conveyed to end users.

(b) Final Subdivision Maps must be approved and recorded for at least 30% of all anticipated residential units within each subdivision within the CFD or improvement area.

(4) Minimum Development Completion Requirements for Commercial Projects:

(a) For any CFD or improvement areas designated for commercial development (including rental apartment projects), building permits covering at least 30% of the planned building square footage must have been issued.

(5) Mixed-Use Development Projects:

(a) For any CFD or improvement areas that include both residential and commercial elements, the City will set appropriate thresholds aligned with the residential and commercial criteria above, tailored to the specific project's characteristics.

These criteria are designed to ensure the CFD bonds are supported by developed or near-developed properties, reducing the City's financial exposure and promoting responsible project development before bond issuance.

~~(F) Enterprise Systems. The City Manager's Office and the City Treasurer's Office shall evaluate the affordability of new money debt for enterprise systems. Enterprise system 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 new money debt. At the time of debt issuance, the projected net system revenues of the enterprise system 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 money debt for enterprise system improvements will be evaluated as an integral part of the City's process for reviewing and setting rates for utilities services. In an effort to maintain the high investment grade credit ratings for the City's Water and Wastewater Systems, coverage ratios above the 120% and 100% levels will be necessary. Maintaining high investment grade credit ratings will help minimize interest costs in future new money debt issuances for the City's Water and Wastewater Systems.~~

~~(G) Conduit Financing by a Joint Powers Authority. The City may agree to the issuance of bonds by various joint powers authorities (e.g., California Enterprise Development Authority, California Municipal Finance Authority, California Public Finance Authority, California Statewide Communities Development 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 the issuance and on-going compliance of the bond issue with federal and state laws. City Treasurer's Office staff will rely upon information and documentation provided by the joint powers authority or the prospective borrower of a project that desires to obtain tax exempt financing.~~

~~The City reserves the right to ask follow-up questions and request additional information as part of the review it deems appropriate. 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.~~

~~(H) City Issued Conduit Financing. Occasionally, 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 reserves the right to make its issuance of conduit bonds contingent upon cooperation of the governmental entity or the 501(c)(3) corporation and their team with a reasonable due diligence process. The City's preferred method is for a joint powers authority, of which the City is already a member, to be the issuer of conduit debt.~~

~~(G) 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's 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.~~
EIFD Formation. Before initiating the formation of a new Enhanced Infrastructure Financing District (EIFD) and any associated debt issuance, the City will conduct a comprehensive feasibility analysis. This analysis will evaluate both the individual impact of the proposed EIFD and the potential issuance of EIFD debt on the City's General Fund, as well as the cumulative effect of all existing EIFD projects and debt, including the new proposal. During the formation process for each EIFD, the City will determine the amount and duration of property tax increment revenue allocated to the EIFD that would otherwise contribute to the General Fund. The allocation will be limited to ensure that core City services and essential needs continue to receive adequate funding. A cap shall be set to limit the amount of tax increment allocated to a specific EIFD in light of other tax increment allocated to other EIFDs such that a specific EIFD's formation does not have a significant impact on core City services and essential needs. This approach ensures that while EIFDs receive predictable, capped funding, the City's General Fund remains stable.

For each new EIFD, a minimum contribution from the tax increment revenue will be allocated to the General Fund to ensure it benefits from development in the EIFD area. In certain cases, the City may apply a phased revenue allocation approach, initially directing a larger portion of tax increment to the EIFD for infrastructure needs, with a gradual reallocation back to the General Fund over time.

3.5 *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 proposed project, or the proposed project can be completed in phases.
- (2) Utilizing projected revenues and fund balances to complete the financing of the proposed project may not necessarily materially impact metrics such as days cash on-hand or debt service coverage ratio, which would not lead to an impairment of the credit ratings outlook or credit ratings of any City Debt.
- (3) Existing debt levels might adversely affect the City's credit ratings outlook or credit ratings.
- (4) Market conditions are unfavorable or present difficulties in marketing the proposed debt.
- (5) The proposed project's useful life is less than five years.
- (6) Debt financing would be the preferred method, but circumstances require delaying the financing.
- (7) Lack of clarity regarding when funding for improvements would be needed.

(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 proposed 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 proposed 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.
- (5) Maintains generational equity.

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. Portions of 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, to fund services or programs, or to fund maintenance-related costs. The final maturity of long-term debt should not exceed 40 years. The following are the types of long-term debt that may be issued or incurred by the City or on which staff of the City Treasurer's Office may work:
 - (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 issue special-tax revenue bonds to finance the construction or acquisition of various improvements identified in the Rate and Method of Apportionment of Special Tax (as may be amended periodically) for each CFD. The Mello-Roos Act provides an efficient means of financing certain 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 public or non-public capital 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 capital improvements. The City has used the Marks-Roos Act to issue refunding bonds for CFDs as well as for three redevelopment project areas when ~~new~~-new-money debt was issued concurrently. Voter approval is not required.
 - (3) 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. Additionally, assessment revenue bonds may be issued by the Sacramento Tourism Infrastructure District (“**STID**”) for eligible improvements in accordance with the STID Management District Plan and the Property and Business Improvement District Law of 1994.

- (4) General-Obligation Bonds. These bonds may be issued by governmental entities that have the legal authority to levy ad valorem property taxes and other charges at whatever rate and amount is necessary to pay the debt. Under article XVI, section 18, of the California Constitution, these bonds may only be issued with two-thirds voter approval.
- (5) Enhanced Infrastructure Financing District Bonds. These bonds may be approved by a public financing authority (“**PFA**”) established for the purpose of managing the affairs of the EIFD. While the PFA will be comprised of members appointed by the City (certain City Council members and the City Council’s public designees), the PFA oversees a separate legal entity. The requirements of the EIFD and issuing EIFD bonds are identified in Government Code sections 53398.5 to 53398.88.

In the event an EIFD desires ~~the City~~ to issue bonds, the City Treasurer’s Office may be asked to handle pre-issuance and issuance-related matters on behalf of an EIFD. The City Treasurer’s Office will manage the issuance of such EIFD bonds in accordance with this Policy in a manner conducive to obtain the lowest cost of borrowing possible.

- (6) ~~——~~ Certificates of Participation and Lease-Revenue Bonds. These debt instruments are secured by a lease-leaseback arrangement between the City and another public entity. The City uses its general operating revenues (which are not expressly pledged) to pay 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.
- (7) Enterprise Revenue Bonds. These bonds are payable from revenue generated by a City enterprise system, such as water and wastewater utilities. Because debt service on revenue bonds is paid solely from enterprise system 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.

- (8) TOT Revenue Bonds. In the case of TOT revenue bonds, such bonds are generally payable from the special tax portion of TOT the City collects less the annual transfer to Visit Sacramento.
 - (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 provide the financing of 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 a 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 by the City 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) Grant Anticipation Notes (“**GANs**”). These are short-term interest-bearing notes issued in anticipation of the receipt of grants. The City may issue GANs as a source of interim financing when the City Treasurer determines that doing so is prudent and advantageous to the City and the upcoming receipt of grants is guaranteed. Voter approval is not required.
 - (4) Lease-Purchase Financings. These financings may be used for the short-term financing of equipment. The term of a lease-purchase agreement is typically less than 10 years but may be as long as 15 years – depending on the useful life of the equipment to be financed. 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.
 - (5) 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 on the short end of the yield curve in a normal interest rate environment are lower than the interest 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. In such case, the City Treasurer’s Office may seek guidance from one of the City’s municipal advisors.
- (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 optionally redeemed 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 to achieve net-present-value savings of at least 5%, but this is not a requirement.
- (4) When appropriate, the City may consider the tender and refinancing of tax-exempt or taxable bonds. The tender should attract tender participation of at least 20% to provide net present-value savings. The minimum tender participation rate of 20% is a goal rather than a requirement. In general, the goal will be to achieve net-present-value savings of at least 5%, but this is not a requirement.

Additionally, the anticipated economic benefit to the City related to the tender – such as estimated cashflow or net present value savings in dollars shall be determined and specified prior to the authorization of the issuance of the tender bonds and will be included in the City Council staff report.

- (4)(5) 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 projected to be 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 the 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 method to offer City Debt to prospective 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 appointed 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. Criteria (C) is especially important to certain credit types such as special-tax revenue bonds, where there is a need to properly describe the background or the "story" of the particular special-tax revenue bonds for each financing so investors can have a better understanding of the risks of the financing and the project. 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, separately managed accounts, 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 with input from the City Treasurer's Office as appropriate) 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 their 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 appointed 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 special-tax revenue bonds issued through CFDs, as well as the issuance of other non-rated bonds if circumstances warrant.

The City Treasurer with guidance from one of the City’s municipal advisors, may incorporate certain credit or bond structuring features to mitigate potential risk – including but not limited to determining the appropriateness of obtaining credit enhancement, reducing the par amount of the issuance of bonds (downsized from the par amount that could be generated in maximum bonding capacity), and supplemental reserves.

In the context of non-rated land-secured bonds, the City reserves the right to not move forward with the issuance of debt requested by a developer for any reason.

At a minimum, key information must be provided to the City for review and consideration. The items include but are not limited to: a-recorded final subdivision maps on at least the first phase(s) of development in accordance with section 3.4 of this Policy, approved tentative maps on the balance of the district CFD, non-redacted purchase and sale agreements for land sales of taxable property within

* 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 **F3** or higher for short-term debt and **BBB-** or higher for long-term debt.

the district within at least the last three years of the request to form the district, and definitive development plans including unit mix, village size and village phasing. Furthermore, the City reserves the right to not move forward with a financing if the development does not have complete or substantially complete backbone infrastructure and street improvements on at least the first phases of development (all in-ground utilities, streets, curbs, gutters, sidewalks), and is in a state of development ready to pull building permits. The City will not seek a rating for any series of 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.

The Security shall be released when the owner or owners of undeveloped property is/are responsible for less than 20 percent of the maximum special tax levy in the CFD (or improvement area, or tax zone, or phase, as applicable). In the event the Security is not renewed to continue to meet the requirements set forth above, the City may draw upon the full amount of the Security. Provided that there are not special tax delinquencies on the undeveloped property to which the Security relates, the City will return amounts drawn when the Security is renewed, replaced or cash in-lieu thereof is provided as set forth herein if such amounts are available in the special tax/redemption fund for the CFD (or improvement area, or tax zone, or phase, as applicable).

5-25.3 *Credit Enhancement.* The City Treasurer's Office will work with one of the City's municipal advisors and with the appointed 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 proposed debt.

5-35.4 *Non-Cash Reserve and Reduced Reserve.* The City Treasurer's Office will work with one of the City's municipal advisors and with the appointed 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, having a reserve partially financed with bond proceeds and partially satisfied by a surety reserve policy, or incorporating a debt service reserve based on a modified three-prong reserve test (26 C.F.R. § 1.148-2(f)(2))—for example, set at 50% of the maximum annual debt service or 10% of the outstanding principal.

5-45.5 *Fixed-Rate Debt.* The City's preferred interest-rate mode is fixed-rate.

5-55.6 *Variable-Rate Debt.* The City may issue variable-rate debt—i.e., debt that pays interest at a rate that resets 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. The City Treasurer's Office will evaluate, with a written analysis provided by one of the City's municipal advisors, the use of variable-rate debt on a case-by-case basis to

determine whether the potential benefits are sufficient to offset the costs of any associated potential risks and whether the variable-rate debt is consistent with federal and state law and financially prudent.

5.65.7 *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, with a written analysis provided by a municipal advisor, the use of derivatives on a case by-case basis to determine whether the potential benefits are sufficient to offset the costs of any associated potential risks and whether the derivatives are consistent with federal and state law and financially prudent.

5.75.8 *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 level 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.

5.85.9 *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 par amount less than \$10 million. As specified in section 5.2 of this Policy, the City reserves the right to not move forward with the issuance of debt requested by any developer for any reason.

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 *Federal Income Tax Compliance*. The City Treasurer's Office is responsible for keeping all records needed to comply with federal 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 be requested to prepare an interim arbitrage-rebate report at least once every 12 months until all proceeds deposited in the project fund (or acquisition and construction fund in the case of CFD financings) have been expended; if, however, the proceeds remaining in the project fund (or acquisition and construction fund) are equal to or less than 5% of the proceeds deposited into the project fund (or acquisition and construction fund), 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, as outlined in the tax certificate of the debt issue.
 - (2) After the construction proceeds have been fully expended or the balance in the project fund (or acquisition and construction fund) has fallen below 5% of the proceeds deposited into the project fund (or the acquisition and construction fund), the City's arbitrage consultant will be requested to prepare an interim arbitrage-rebate report on each five-year anniversary of the issue date of the bonds, or more frequently if warranted (such as in the case of refundings).
- (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 (or acquisition and construction 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 of the refunded bonds 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 tax counsel in reviewing contracts or other arrangements involving use of assets financed or refinanced with tax-exempt taxable debt to ensure compliance with all covenants and restrictions in the documents relating to the debt.
- (C) Maintaining records for any contracts or other arrangements involving the use of assets financed or refinanced with tax-exempt debt.
- (D) Maintaining internal-control procedures related to the management and disbursement of proceeds, such as procedures requiring that proceeds are either (1) held by a third-party trustee or fiscal agent, which will disburse the proceeds to, or upon the order of, the City in accordance with one or more written requisitions; or (2) held by the City and deposited and accounted for in a separate fund or account, with withdrawals and expenditures carefully documented.
- (E) Consulting promptly with the City Attorney's Office and tax counsel to develop a course of action to remediate any identified existing or potential violations of restrictions on the use of tax-exempt or taxable proceeds or the use of assets financed or refinanced with tax-exempt or taxable proceeds.

Attachment A
Supplemental Policies

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

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

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

City of Sacramento *Debt Management Policy – Supplemental Policy on Disclosure* (Adopted on June 2, 2011, by Resolution No. 2011-322 and updated on February 7, 2017, by Resolution No. 2017-0046; on June 19, 2018, by Resolution No. 2018-0251; 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; June 1, 2021, by Resolution No. 2021-0156; and on October 19, 2021, by Resolution No. 2021-0314; on November 1, 2022, by Resolution No. 2022-0329; ~~and~~ on May 2, 2023, by Resolution No. 2023-0111); and on February 6, 2024, by Resolution No. 2024-0031.

CITY OF SACRAMENTO
DEBT MANAGEMENT POLICY
Supplemental Policy on Disclosure

Adopted by the City Council on ~~February 6, 2024~~ January 21, 2025

1. Introduction

1.1 This Supplemental Policy on Disclosure (“**Policy**”) governs the City’s fulfillment of its disclosure obligations related to municipal securities issued by the City or by related entities such as the Sacramento City Financing Authority, the Sacramento Public Financing Authority, and the Redevelopment Agency Successor Agency. In the event an Enhanced Infrastructure Financing District (“**EIFD**”) formed by the City issues bonds, the City, specifically the Office of the City Treasurer, may be asked to handle post issuance matters including continuing disclosure for EIFD bonds. While an EIFD is a separate legal entity from the City with a separate governing body from the City Council, if City staff is responsible with the continuing disclosure requirements for EIFD bonds, City staff (specifically City Treasurer’s Office staff) will do so in accordance with this Policy.

- (A) The City and its related entities issue debt in the municipal-bond market from time to time. When bonds are issued, the City, whether acting for itself or for a related entity, is obligated to disclose all material information in compliance with federal securities laws, including the Securities Act of 1933, the Securities and Exchange Act of 1934, Rule 10b-5 of the Securities and Exchange Commission (the “**SEC**”), and Rule 15c2-12 of the SEC as amended. California Government Code sections 8855 and 53359.5 require certain disclosures to the California Debt and Investment Advisory Commission of the California State Treasurer’s Office, and Government Code sections 12463.2, 53891, 53892, 53892.2, and 53892.3 require certain disclosures to the California State Controller’s Office.
- (B) Incomplete, inaccurate, or misleading disclosure might have material financial consequences for the City, as well as City officers and employees. For example:
- The SEC could bring civil actions charging that disclosure was negligent, reckless, or intentionally fraudulent; in addition, the SEC could refer cases to the U.S. Department of Justice for criminal prosecution.
 - The SEC could impose cumbersome procedures and oversight on the City as conditions for settling civil actions.
 - The City could suffer adverse publicity, which might reduce market access and investor acceptance.

- The credit ratings outlook or the credit ratings on the City’s municipal securities could be downgraded, resulting in increased costs in future issuances.
 - City officials could face personal fines for violations of securities laws.
- (C) Sound disclosure practices can provide both tangible and intangible benefits, including the following:
- Enhanced credibility in the municipal-bond market.
 - Transparency with rating agencies, bond insurers, current bondholders, and prospective bond investors.
 - Improved decision making for prospective bond investors.
 - Increased numbers and types of bond investors who purchase the City’s bonds in the primary and secondary markets.
 - Demonstrated City commitment to providing full, accurate, and timely disclosure to rating agencies, bond insurers, current bondholders, and other stakeholders.
 - The potential for a lower overall cost of borrowing.

1.2 Scope of Policy. This policy applies to City information and documents, including the following, that a reasonable bond investor would consider significant or useful when deciding whether to invest in the City’s bonds:

- (A) Initial-disclosure documents, i.e., preliminary and final official statements.
- (B) Continuing-disclosure documents, i.e., annual financial information, required event notices, and voluntary notices.
- (C) Miscellaneous reports and presentations to the public.

2. Governing Authority, Point of Contact, and Responsibility

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

2.2 Point of Contact. Either the City Treasurer or the Debt Manager will be the City's point of contact for disclosure, primarily responsible not only for developing and distributing information but also for determining the materiality of information, based in part by guidance by the City Attorney's Office and the City's disclosure counsel.

2.3 Responsibility.

(A) The City Treasurer or the Debt Manager shall oversee all aspects of disclosure. As such, the City Treasurer or the Debt Manager shall review the form and content of the City's documents and materials prepared, issued, or distributed in connection with the City's disclosure obligations relating to its municipal securities. Those documents and materials include not just preliminary and final official statements but also the following:

- Annual financial information provided to the Municipal Securities Rulemaking Board ("**MSRB**") in accordance with SEC Rule 15c2-12 as may be amended periodically and any applicable continuing-disclosure agreement or certificate (except that the City Treasurer and the Debt Manager are not responsible for the form and content of the City's annual comprehensive financial report, which is prepared by the City's Accounting Division and reviewed and confirmed by the City's external auditor).
- Event notices provided to the MSRB in accordance with SEC Rule 15c2-12 as may be amended periodically and any applicable continuing-disclosure agreement or certificate.
- Any other information provided to the MSRB for use by investors in making investment decisions.

Such information and notices will typically be provided through the MSRB's Electronic Municipal Market Access website (known as "**EMMA**"), which the SEC has designated as the official source for municipal securities data and disclosure documents.

The City reserves the right to utilize certain services provided by a third-party dissemination agent such as the upload of disclosure filings to EMMA, however as stated in section (eC) below, the preparation, review, and final approval of all disclosure filings are the responsibility of the City.

(B) Along with the City Treasurer and their staff, the City Attorney and the City Manager shall serve as integral members of the financing team, each responsible, as appropriate, for ensuring and certifying to the accuracy of information disclosed to the municipal-bond market.

(C) The City is responsible for the content of its disclosure documents. The City Treasurer, City Attorney, and City Manager and their appointed or delegated staff shall ensure that the use of outside professionals for their respective

areas of expertise is appropriate and that reliance upon outside professionals is reasonable and not excessive. The City Treasurer's Office is responsible for the ~~accuracy and completeness~~, accuracy, and timeliness of information uploaded to EMMA, except with respect to certain information filed by developers and merchant builders or their respective consultants, in accordance with the respective developer's or merchant builder's limited scope continuing disclosure requirements for certain special-tax revenue bonds.

- (D) The City Treasurer or the Debt Manager shall ensure that subject-matter experts, including City staff with relevant knowledge or expertise, are involved in developing and periodically reviewing and updating disclosure documents. For example, when obligations are secured by specific revenues, such as water or wastewater revenues, City staff who are knowledgeable about the relevant enterprise utility must be involved.
- (E) The City Treasurer or the Debt Manager, in collaboration with the City Attorney, shall arrange for the engagement of disclosure counsel to assist the City in complying with disclosure requirements, as warranted. The City Treasurer or the Debt Manager shall also arrange for the periodic training of City Council members and City Council members' staff (as determined by the City Treasurer or the Debt Manager), executive management and other employees who may contribute to or have involvement with the City's primary offerings or continuing disclosure obligations, regarding the City's disclosure obligations under federal securities laws. Such training may take place via a webinar/recording accessible on the Acumen or other training platform utilized by the City.
- (F) City officers and employees serving as financing-team members are responsible for reviewing and commenting on draft documents. As part of their review, they must determine whether all material information—including confidential or politically sensitive information—has been included and is both accurate and relevant.
- (G) City officers and employees and the officers and employees of related entities shall promptly provide all information, assurances, and certifications the City Treasurer or the Debt Manager requests for compliance with federal securities laws. The City Manager and the City Attorney shall be required to promptly and fully respond to those requests.

3. Certifications

- 3.1 In connection with the City Council's approval of preliminary or final official statements for publicly issued municipal securities, an appropriate City officer or employee shall certify in writing, to the best of their knowledge, that the 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 light of the circumstances under which they were made, not misleading.

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