CITY OF SAN RAMON

STATEMENT OF DEBT MANAGEMENT AND DISCLOSURE POLICY

POLICY PURPOSE

This Debt Management Policy (the "Debt Policy") establishes the parameters within which debt may be issued and administered by the City of San Ramon (the "City"), San Ramon Public Financing Authority, and the San Ramon Successor Agency (collectively, the "Covered Entities"). This Debt Policy is intended to comply with Government Code Section 8855(i), effective on January 1, 2017.

POLICY STATEMENT

While the Covered Entities prefer to finance projects on pay-as-you-go basis, in the event debt is necessary, the Policy confirms the commitment of the Council, Boards, management, staff, advisors, and other decision makers to adhere to sound financial management practices, including full and timely repayment of borrowings, achieving the lowest possible cost of capital within prudent risk parameters.
Priorities of the Debt Policy are:

1. Achieve the lowest cost of capital by balancing the City's service, infrastructure, and liability obligations;
2. Maintain a prudent level of financial risk;
3. Preserve future financial flexibility;
4. Maintain full and complete financial disclosure and reporting;
5. Obtain highest practical credit ratings and good investor relations; and
6. Ensure compliance with state and federal laws and regulations.

The Debt Policy shall govern, except as otherwise covered by the Investment Policy, the issuance and management of all debt and lease financings funded from the capital markets (including private placement and bank loans), including the selection and management of related financial services and products and investment of bond and lease proceeds. While adherence to this policy is required in applicable circumstances, it is recognized that changes in the capital markets, agency programs and other unforeseen circumstances may from time to time produce situations that are not covered by this policy and will require modifications or exceptions to achieve policy goals. In these cases, management flexibility is appropriate, provided specific authorization from the City Manager, City Council and other authorizing Boards is obtained.

This Debt Policy may be amended by the City Council as it deems appropriate from time to time in the prudent management of the debt of the City and its Covered Entities. Any approval of debt by the City Council that is not consistent with this Debt Policy shall constitute a waiver of this Debt Policy.

RESPONSIBILITIES

The debt program for all City funds shall be operated in conformance with applicable federal, state and other legal requirements, including the Municipal Code.

Responsibility for managing and coordinating all activities related to the structure, issuance, and administration of all long- and short-term debt obligations shall rest with the Administrative Services Director.

No debt obligations shall be presented to the City Council, San Ramon Public Financing Authority Board or San Ramon Successor Agency Board for their authorization without the joint assessment and recommendation of the City Manager and City Attorney. Departments planning debt-financed capital programs or equipment acquisitions shall work closely with the City Manager and Administrative Services Director to provide information and otherwise to facilitate the issuance and on-going administration of debt.

The Administrative Services Director shall be responsible for maintaining good communication with rating agencies, investors, and other debt related service providers about the City's financial condition and will follow a policy of full disclosure as required by the Securities Exchange Commission's Rule 15c2-12 and in accordance with the specific disclosure reporting requirements detailed in each respective bond transcript.

The Administrative Services Director shall conduct an annual review of this Debt Policy and bring forward to the City Council any amendments deemed necessary and appropriate.

TYPES OF DEBT

For purposes of this Debt Policy, "debt" shall be interpreted broadly to mean bonds, notes, certificates of participation, financing leases, or other financing obligations, but the use of such term in this Debt Policy shall be solely for convenience and shall not be interpreted to characterize any such obligation as an indebtedness or debt within the meaning of any statutory or constitutional debt limitation where the substance and terms of the obligation comport with exceptions thereto.

The following types of debt are allowable under this Debt Policy:

- General obligation bonds

- Bond or grant anticipation notes

- Lease revenue bonds, certificates of participation and lease-purchase transactions

- Other revenue bonds and certificates of participation

- Tax and revenue anticipation notes

- Land-secured financings, such as special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, as amended, and limited obligation bonds issued under applicable assessment statutes

- Tax increment financing to the extent permitted under state law

- Conduit financings, such as financings for affordable rental housing and qualified 501c3 organizations

- Pension Obligation Bonds

The Covered Entities may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy.

DEBT CONSIDERATIONS

General:
The Covered Entities will evaluate the need for debt financing of a project compared to a pay-as-you-go financing methodology. The Covered Entities prefers to fund projects on a pay-as-you-go basis.

1. Factors favoring a pay-as-you-go methodology include:
    a. Current projected revenues, fund balances available are sufficient to fund the project and fund liabilities are manageable.
    b. Long-term total costs are lower due to the avoidance of interest expense.
    c. Existing debt levels adversely affect the City's credit rating.
    d. Market conditions are unfavorable or present difficulties in marketing.

2. Factors favoring debt financing include:
    a. Current and projected revenues available for debt service are sufficient and reliable so that financings can be marketed with investment grade credit ratings.
    b. Market conditions present favorable interest rates leading to efficient financial resource allocation and demand for the City financings.
    c. A project is mandated by state or federal requirements, and current resources are insufficient or unavailable to fully fund the project.

d. The project is immediately required to meet or relieve capacity needs or emergency conditions and current resources are insufficient or unavailable.

The City will review debt limits in conjunction with any proposed financing.

Relationship of Debt to Capital Improvement Program and Budget:
The City is committed to long-term capital planning. The Covered Entities intend to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the City's capital budget and the capital improvement plan.

The Covered Entities shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues. The Covered Entities shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

The Covered Entities shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the City's public purposes.

The Covered Entities shall seek to avoid the use of debt to fund infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.

The Covered Entities shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

Policy Goals Related to Planning Goals and Objectives:
The City is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The Covered Entities intend to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the City's annual operations budget.

DEBT MANAGEMENT

The City will not obligate the General Fund to secure long-term financings except when marketability can be significantly enhanced.

An internal feasibility analysis will be prepared for each long-term financing, which analyzes the impact on current and future budgets for debt service and operations. This analysis will also address the reliability of revenues to support debt service.

The Covered Entities will generally conduct financings on a competitive basis. However, negotiated financings may be used due to market volatility or the use of an unusual or complex financing or security structure.

DEBT CAPACITY

The Covered Entities will carefully monitor its levels of general-purpose debt. Because our general purpose debt capacity is limited, it is important that we only use general purpose debt financing for high-priority projects where we cannot reasonably use other financing methods for two key reasons:

1. Funds borrowed for a project today are not available to fund other projects tomorrow.

2. Funds committed for debt repayment today are not available to fund operations in the future.

In evaluating debt capacity, general-purpose annual debt service payments should generally not exceed 10% of General Operating revenues, which consist of the General Fund and Dougherty Valley Fund; and in no case should they exceed 15%. Further, direct debt will not exceed 2% of assessed valuation; and no more than 60% of capital improvement outlays will be funded from long-term financings.

DEBT TERM

The City Council, San Ramon Public Financing Authority Board and San Ramon Successor Agency Board recognize that any new debt obligation will have an impact on the long-term affordability of all outstanding debt and any future planned debt, as well as budgetary impacts associated with the maintenance and operating costs of debt-financed facilities.

1. Term of Debt – Debt will be structured for the shortest period possible, consistent with a fair allocation of costs to current and future beneficiaries or users. Debt shall not be issued for a term that exceeds the useful life of the debt-financed asset.

2. Debt Repayment – Typically, the Covered Entities desire level debt service payments over the term of the debt. However, the cost of capital, financial risk, current economic conditions, future financial flexibility, credit ratings and available cash flow will be evaluated to determine the most appropriate method of debt amortization for each debt issue. Notwithstanding the above, back loading the debt service will be evaluated as the circumstances dictate. Back loading occurs when debt service payments are lower in the initial years of a debt term and higher toward the later years of a debt term.

DEBT ISSUANCE

The Covered Entities have the capacity to issue long- and short-term debt and to refund any outstanding debt. The following details the purposes of debt issuance, the method of sale for such debt, and the practices for obtaining professional assistance in the debt issuance process.

1. Long-term Debt – Long-term debt may be used to finance the acquisition or improvement of land, infrastructure, facilities, or equipment for which it is appropriate to spread the costs of such over more than one budget year. Long-term debt may be used to fund capitalized interest, cost of issuance, required reserves and any other financing related costs that may be legally capitalized. Long-term debt shall not be used to fund City operating costs.

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

   Short-term debt is also appropriate to address legitimate short-term cash flow requirements during a given fiscal year to fund the operating costs of the City to provide necessary public services. The Covered Entities will not engage in short-term borrowing solely for the purpose of generating investment income.

3. Refunding – Refunding opportunities will be identified by periodic reviews of outstanding debt obligations. Refunding will be considered when there is a net economic benefit from the refunding. Non-economic refunding may be undertaken to achieve City objectives relating to changes in covenants, call provisions, operational flexibility, tax status, issuer, or other non-economic factors related to the debt.

4. Method of Sale – Debt is typically issued under either a competitive sale or a negotiated sale. The Covered Entities shall have the flexibility to determine which method of sale is appropriate for each debt issuance. Determination of the appropriate method of sale will rest collectively with the City Manager and Administrative Services Director.

5. Private Placement – The Covered Entities may determine that private placement of debt is most appropriate. Use of private placement will be considered collectively by the City Manager and Administrative Services Director.

6. Pooled Financing – The City may also consider use of pooled financing as a method of accessing the capital markets. Use of pooled financing will be evaluated collectively by the City Manager and Administrative Services Director on a case-by-case basis.

7. Selection of Financing Professionals – Selection of financing professionals (financial advisor, underwriter, bond counsel, disclosure counsel, trustee, etc.) shall generally be on a competitive basis; however, the City Manager is authorized to select financing professionals on a sole source basis. Selection shall balance service (experience, professional reputation and capabilities) with costs. Once selected, the Financial Advisor may assist the Covered Entities with selecting the rest of the members of the financing team.

DEBT STRUCTURE

1. Credit Ratings – It is a policy goal of the Covered Entities to protect taxpayers, ratepayers and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (although not all debt with be rated) and the lowest practical borrowing costs. The Covered Entities will seek to maintain the appropriate balance between high credit ratings and operational flexibility. In those cases where debt will be rated, the Covered Entities will seek credit ratings from at least one of the three major ratings agencies. Ratings from multiple rating agencies may be sought for a single debt issue, based upon market expectations and conditions at the time of the issuance.

2. Fixed-rate and Variable-rate Debt – The Covered Entities prefer to issue fixed-rate debt. Variable-rate debt may be used, if market conditions warrant at the time of issuance. It is acknowledged that variable-rate debt passes an unknown obligation onto future budget cycles.

3. Derivatives – Derivative products may have application with regard to certain borrowing programs. The City Manager and Administrative Services Director will evaluate the use of derivative products on a case-by-case basis.

4. Call Provisions – The timing for when bonds are callable varies and is determined at the time of pricing such bonds. The Covered Entities preferred structure is to negotiate for optional redemption at par in order to maintain flexibility in the future.

5. Credit Enhancements – The Covered Entities may use credit enhancements (letters of credit, bond insurance, surety bonds, etc.) when such credit enhancements prove to be cost-effective. The Covered Entities will consider the use of credit enhancements on a case-by-case basis.

INTERFUND BORROWINGS

The City may borrow internally from other funds with temporary cash surpluses to meet short-term cash needs in lieu of issuing debt. The fund(s) from which the money is borrowed shall be repaid with interest at the average earnings rate of the Local Agency Investment Fund (LAIF). Interfund borrowing extending for more than one year will be brought to Council for approval.

MARKET COMMUNICATION, DEBT ADMINISTRATION AND REPORTING REQUIREMENTS

A. Responsibilities:

The Administrative Services Director shall be responsible for administering the City's debt management program. To that end, this position shall:

1. Comply with all reporting requirements within the bond documents

2. Review all outstanding debt for refunding opportunities

3. Maintain positive working relationships with rating agencies and other financial professionals

4. Review and recommend appropriate structures for all new debt issuances.

5. Ensure compliance with the Investment Policy and bond documents regarding investing bond proceeds.

B. Rating Agencies:

The Administrative Services Director shall be responsible for maintaining the Covered Entities relationships with Standard & Poor's Ratings Services, Fitch Ratings, and Moody's Investors Service, as appropriate. The City shall, from time to time, deal with one, two or all of these agencies as circumstances dictate. In addition to general communication, the Administrative Services Director shall (1) meet, (either in person or via phone) with credit analysts periodically as appropriate; and (2) prior to each competitive or negotiated sale, offer conference calls or meeting(s) with rating analysts in connection with the planned sale.

C. Observance of Debt Covenants:

The Administrative Services Director will periodically review that the City is in compliance with all legal covenants for each debt issue.

D. Continuing Disclosure:

The Administrative Services Director will remain in compliance with Rule 15c2-12.

E. Record Keeping:

A copy of all debt-related records shall be retained at the City's Administrative Services offices or in an approved storage facility. At minimum, these records shall include all official statements, bid documents, bond documents/transcripts, resolutions, trustee statements, leases, and title reports for each financing (to the extent available). To the extent possible, the City shall retain an electronic copy of each document, preferably in PDF or CD-ROM format.

F. Arbitrage Rebate:

The City will comply with the administratively adopted policies and procedures regarding tax-exempt financings and tax-exempt financed property, as well as the tax and arbitrage certifications associated with each issue.

INTERNAL CONTROL PROCEDURES

It is the policy of the City to ensure that proceeds of debt are spent only on lawful and intended uses. Whenever reasonably possible, proceeds of debt will be held by a third-party trustee and the City will submit written requisitions for such proceeds. The City will submit a requisition only after obtaining the signature of the City Manager. The Administrative Services Director shall ensure that records of all expenditures of proceeds will be retained through the final payment date for the debt.

INITIAL AND CONTINUING DISCLOSURE COMPLIANCE

A. Disclosure Coordinator:
The Administrative Services Director of the City shall be the disclosure coordinator of the City ("Disclosure Coordinator").

B. Review and Approval of Official Statements:
The Disclosure Coordinator of the City shall review any Official Statement prepared in connection with any debt issuance by the Covered Entities in order to ensure there are no misstatements or omissions of material information in any sections that contain descriptions of information prepared by the City. Additionally, the Disclosure Coordinator will participate on all Due Diligence reviews with the Covered Entities finance team prior to debt issuance.

In connection with its review of the Official Statement, the Disclosure Coordinator shall consult with third parties, including outside professionals assisting the City, and all members of City staff, to the extent that the Disclosure Coordinator concludes they should be consulted so that the Official Statement will include all "material" information (as defined for purposes of federal securities law).

As part of the review process, the Disclosure Coordinator shall submit all Official Statements to the City Council, San Ramon Public Financing Authority or San Ramon Successor Agency for approval by the appropriate body. The cover letter used by the Disclosure Coordinator to submit the Official Statements shall be in substantially the form of Exhibit A.

The approval of an Official Statement by the City Council shall be docketed as a new business matter and shall not be approved as a consent item. The City Council shall undertake such review as deemed necessary by the City Council, following consultation with the Disclosure Coordinator, to fulfill the City Council's responsibilities under applicable federal and state securities laws. In this regard, the Disclosure Coordinator shall consult with the City's disclosure counsel to the extent the Disclosure Coordinator considers appropriate.

C. Continuing Disclosure Filings:
Under the continuing disclosure undertakings that the City, San Ramon Public Financing Authority or San Ramon Successor Agency have entered into in connection with its debt offerings, the appropriate agency is required each year to file annual reports with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system in accordance with such undertakings. Such annual reports are required to include

certain updated financial and operating information, and the City's audited financial statements.

The City is also required under its continuing disclosure undertakings to file notices of significant/ material events with EMMA.

The Disclosure Coordinator is responsible for establishing a system (which may involve the retention or one or more consultants) by which:

a) the City will make the annual filings required by its continuing disclosure undertakings on a complete and timely basis, and

b) the City will file notices of enumerated events as required by Rule 15c2-12.

D. <u>Public Statements Regarding Financial Information:</u>
Whenever the City makes statements or releases information relating to its finances to the public that are reasonably expected to reach investors and the trading markets, the City is obligated to ensure that such statements and information are complete, true, and accurate in all material respects.

E. <u>Training:</u>
The Disclosure Coordinator shall ensure that the members of the City staff involved in the initial or continuing disclosure process and the City Council are properly trained to understand and perform their responsibilities.

The Disclosure Coordinator shall arrange for disclosure training sessions conducted by the City's disclosure counsel. Such training sessions shall include education on these Disclosure Procedures, the City's disclosure obligations under applicable federal and state securities laws and the disclosure responsibilities and potential liabilities of members of the City's staff and members of the City Council. Such training sessions may be conducted using a recorded presentation.

EXHIBIT A

CITY COUNCIL STAFF REPORT

Date:

To: **City Council/City Manager**

From:

Subject

This Staff Report relates to the proposed issuance of **______** (the "Obligations") by the City. The City Council is asked to approve issuance of the Obligations and all related documents. The near-final versions of these documents are attached.

The attached Preliminary Official Statement has been reviewed and approved for transmittal to the City Council by the City's financing team. The distribution of the Preliminary Official Statement by the City is subject to federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require the Preliminary Official Statement to include all facts that would be material to an investor in the Obligations. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the Obligations. If the City Council concludes that the Preliminary Official Statement includes all facts that would be material to an investor in the Obligations, it must adopt a resolution that authorizes staff to execute a certificate to the effect that the Preliminary Official Statement has been "deemed final."

The Securities and Exchange Commission (the "SEC"), the agency with regulatory authority over the City's compliance with the federal securities laws, has issued guidance as to the duties of the City Council with respect to its approval of the Preliminary Official Statement. In its "Report of Investigation in the Matter of County of Orange, California as it Relates to the Conduct of the Members of the Board of Supervisors" (Release No. 36761 / January 24, 1996) (the "Release"), the SEC indicated that, if a member of the City Council has knowledge of any facts or circumstances that an investor would want to know about prior to investing in the Obligations, whether relating to their repayment, tax-exempt status, undisclosed conflicts of interest with interested parties, or otherwise, he or she should endeavor to discover whether such facts are adequately disclosed in the Preliminary Official Statement. In the Release, the SEC indicated that the steps that a member of the City Council could take include becoming familiar with the Preliminary Official Statement and questioning staff and consultants about the disclosure of such facts.

Set forth below is a summary of the financing, including cross-references to specific sections of the Preliminary Official Statement.

Section 1. *Purpose of Financing*.

Section 2. *Documents for Approval*; *Security for the Obligations*.

Section 3. *Risks Relating to Repayment and Tax-Exempt Status of the Obligations*.

Section 4. *Requested Approvals.*