

**RESOLUTION NO. 133-20**

**A RESOLUTION OF THE COUNCIL OF THE CITY OF RICHMOND,  
CALIFORNIA, ADOPTING THE DEBT POLICY FOR FISCAL YEAR 2020-2021**

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**WHEREAS**, the City of Richmond (the "City") is a charter city that operates under the Council-Manager form of government for the purposes of providing a full range of municipal services including police and fire protection; construction and maintenance of highways, streets and infrastructure; library services; storm water and municipal sewer systems; a wastewater treatment facility; and the administration of recreational activities and cultural events; and

**WHEREAS**, the City also operates the Richmond Memorial Convention Center and the Port of Richmond; and

**WHEREAS**, the City has established and maintains a well-managed debt program pursuant to a comprehensive debt policy that sets forth the parameters for issuing debt and managing the debt portfolio, including post-issuance compliance; and

**WHEREAS**, in the credit rating process, the rating agencies believe it is appropriate to place significant value on debt policies that have been adopted by cities; and

**WHEREAS**, the City established a Debt Policy that requires annual commitments relating to the General Fund debt cannot exceed ten percent (10%) of annual General Fund revenues; and

**WHEREAS**, the City has determined that an appropriate level of the General Fund reserves is a policy decision; and

**WHEREAS**, the GFOA recommends that reserve levels be directly related to the degree of uncertainty the local government faces; and

**WHEREAS**, the adoption of the financial policies listed in this document is consistent with "best practices" and the City's fiduciary oversight of the Fiscal Policies of FY2020-21.

**NOW THEREFORE BE IT RESOLVED**, that the City Council hereby adopts the Debt Policy for the City of Richmond that is attached hereto as Exhibit A.

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I certify that the foregoing resolution was passed and adopted by the Council of the City of Richmond at a regular meeting thereof held December 1, 2020, by the following vote:

AYES: Councilmembers Choi, Johnson, Martinez, Myrick, Willis,  
Vice Mayor Bates, and Mayor Butt.  
NOES: None.  
ABSTENTIONS: None.  
ABSENT: None.

PAMELA CHRISTIAN  

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CLERK OF THE CITY OF RICHMOND  
(SEAL)

Approved:

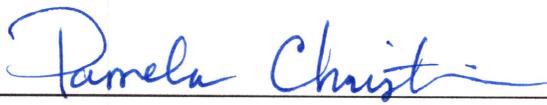
THOMAS K. BUTT  
Mayor

Approved as to form:

TERESA STRICKER  
City Attorney

State of California            }  
County of Contra Costa        }       : ss.  
City of Richmond               }

I certify that the foregoing is a true copy of **Resolution No. 133-20**, finally passed and adopted by the City Council of the City of Richmond at a regular meeting held on December 1, 2020.

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Pamela Christian, Clerk of the City of Richmond

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# City of Richmond

## Debt Policy

### Fiscal Year 2020-21

#### 1. Introduction

The City of Richmond (the City), through the Finance Department, executes debt instruments, administers debt proceeds, manages ongoing disclosure and debt compliance, and makes debt service payments, acting with prudence and diligence and with attention to prevailing economic conditions. The City believes that debt is an equitable means of financing projects and represents an important means of meeting fiscal responsibilities.

The Debt Policy primarily addresses debt instruments/securities issued by the City in public or private bond markets. This is consistent with examples of debt policies of other comparable municipalities, GFOA guidelines, and rating agency guidelines. The debt policies pertain to debt that is typically incurred when capital is raised in the public or private markets, including borrowings from sophisticated qualified institutional buyers, to meet the City's funding needs. Such debt constitutes obligations whereby a third-party has provided funds, which is evidenced by the formal execution of a bond or certificate (or a similar instrument), and is held by the third-party until it is repaid.

The Debt Policy does not cover other obligations like contracts payable, notes payable, arbitrage liability, and net pension liability and/or pension unfunded accrued actuarial liability and Other Post-Employment Benefits (OPEB) unfunded accrued actuarial liability. The City's Comprehensive Annual Financial Report (CAFR) provides a complete list of the outstanding long term obligations. The sections in the CAFR listing the long term obligations are: Governmental Activities Long-Term Debt Obligations; Business Type Activities Long-Term Debt Obligations; Special Assessment Debt without City Commitment; and Conduit Debt. Consistent with GASB standards, the net pension liability is reflected in Notes 10 and 11 of the CAFR as a long term liability. OPEB-related obligations are reflected in Note 12.

The Debt Policy outlines the City's procedures and goals for the use of debt to finance City needs. This Debt Policy is enacted in an effort to standardize and plan the issuance and management of debt by the City. While the Debt Policy serves as a guideline for general use, from time to time, however, compelling or extraordinary circumstances may arise that require the City Council, at the recommendation of the Finance Department, to deviate from this policy.

Appendices of this Debt Policy consist of: Appendix A: Investment Policy, Appendix B: Swap Policy, and Appendix C: List of Material Events.

#### 2. Policy Purpose

The purpose of this Debt Policy is to set forth the principles and objectives that should guide the City's decisions to issue debt and establishes guidelines for responsibly managing debt. The core objectives of this policy include the following:

- 2.1. Establish guidelines for the use of various categories of debt.
- 2.2. Create procedures and policies that minimize the City's debt service and issuance costs.
- 2.3. Maintain access to cost-effective borrowing.



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- 2.4. Ensure full and timely repayment of debt.
  - 2.5. Achieve and maintain the highest practical credit ratings of the various bond and credit types as well as the City's overall credit rating.
  - 2.6. Ensure financial controls are in place with respect to proceeds of debt issuances.
  - 2.7. Ensure compliance with covenants contained in financing documents and compliance with applicable state and federal laws and regulations.
  - 2.8. Promote the City's best interests and protect the City's financial stability when deciding whether to approve debt.
  - 2.9. Provide full and complete financial disclosure and reporting.

In meeting these objectives, the City also fulfills the requirements of California Government Code Section 8855 with respect to local debt policies.

An annual review of the Debt Policy will be performed and any changes to the policy will be brought forward for City Council consideration and approval. Further, in the event there are any material deviations or exceptions from the Debt Policy when a certain bond issue is structured, those exceptions will be discussed in the staff reports when the bond issue is docketed for City Council's consideration.

### **3. California Debt and Investment Advisory Commission (CDIAC) Reporting/Debt Policy Requirements**

Effective January 1, 2017, Government Code Section 8855 was amended to require reporting to CDIAC both before and after the issuance of debt by or on behalf of local governments, including the City. Section 8855 also requires local governments to have a debt policy that includes the following (locations in this policy are identified parenthetically):

- 3.1. The purposes for which the debt proceeds may be used (Section: 5).
- 3.2. The types of debt that may be issued (Section: 5).
- 3.3. The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable (Section: 6.2).
- 3.4. Policy goals related to the issuer's planning goals and objectives (Section: 6.1)
- 3.5. The internal control policies that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use (Section: 7).

### **4. Scope of Application**

This Debt Policy applies to debt issued by the City of Richmond, the Richmond Housing Authority, the Successor Agency to the Richmond Community Redevelopment Agency, and the Richmond Joint Powers Financing Authority; to debt the City issues on behalf of assessment districts and community facilities districts; and to debt the City issues on behalf of third parties where public benefit can be achieved i.e., conduit financing.



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## 5. Types and Purposes of Debt

### 5.1. Long-Term Debt

Long-term debt may be issued only to serve a public purpose and may be used to finance the costs of acquiring or improving land, infrastructure, facilities, or equipment if it is appropriate to spread these costs over more than one budget year. Long-term debt may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing-related costs that may be legally capitalized. Long-term debt may not be used to fund City operating 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 undertaken by the City:

- 5.1.1. Special-Assessment Bonds.** The Improvement Act of 1911 and the Improvement Bond Act of 1915 authorize the City to form assessment districts for imposing special-assessment liens on properties within the districts. Assessments on each property are calculated according to the “special benefit” the property receives from the local public improvements. Local public improvements examples include local streets, street lights, landscaping, sidewalks and sanitary sewers. The assessments are used to secure payment of bonds that amortize the local public improvement costs over a period of years. A majority of the property owners within the district must approve both the formation of the district and the issuance of the bonds. Approval occurs through submission of assessment ballots weighted according to the amount of each property’s proposed assessment.
- 5.1.2. Special-Tax Revenue Bonds.** Under the Mello-Roos Community Facilities District Act of 1982, codified at Governmental Code sections 53311 to 53368.3 (the “**Mello-Roos Act**”), the City may use special-tax bonds to finance the construction or acquisition of various public improvements. The Mello-Roos Act provides an efficient means of financing certain public capital facilities and services and promotes economic development in areas that lack sufficient infrastructure, such as infill or brownfield areas. Bonds may be issued to fund capital facilities so long as the estimated useful life of the facilities is at least five years. These bonds must be approved by at least two-thirds of the qualified electors within the Community Facilities District unless there are fewer than 12 qualified electors, in which case the vote is by the landowners.
- 5.1.3. Marks-Roos Bonds.** Under the Marks-Roos Local Bond Pooling Act of 1985, codified at Government Code sections 6500 to 6599.3 (the “**Marks-Roos Act**”), governmental entities, in consort with or as part of a joint-powers financing authority, may use a “pooled” financing technique for a broad array of public capital improvements.
- 5.1.4. 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 for the acquisition or improvement of real property such as libraries, parks and public safety facilities. Two-thirds voter approval is required.
- 5.1.5. Tax-Allocation Bonds.** Until January 2012, the City was authorized to issue tax-allocation bonds (“TABs”) that were secured by a pledge of tax-increment revenues from redevelopment project areas. Proceeds from TABs were used to revitalize blighted and economically depressed areas and promote economic growth. The City is no longer authorized to issue new-money TABs unless the City or its related financing authorities are aware of enforceable obligations that need to be met. Only refunding TABs are now authorized, and only the Successor Agency to the Richmond Community Redevelopment Agency may issue them.



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- 5.1.6. 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 amounts owed under the lease. The payments are in turn used to pay debt service on lease-revenue bonds issued by a joint-powers financing authority or on certificates of participation executed and delivered by a trustee. Under this type of financing, a site, on which a capital project is being built, is leased to a joint-powers financing authority and subsequently the site and the capital project, are leased back to the City. In an alternative arrangement, a different asset is leased to the joint-powers financing authority and leased back, with the proceeds of the bonds being used for some other capital improvements (this is known as an "asset transfer" financing). Lease payments from the City are subsequently collected by the joint-powers financing authority and used to fund the debt service payments. Internally, costs of particular projects can be allocated to the budgets of one or more departments, but the City's general fund is liable to pay lease payments. 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.
- 5.1.7. Revenue Bonds.** These bonds are payable from revenue generated by a City enterprise, such as the Port, KCRT Cable Television, and Water Resource Recovery. Because debt service on revenue bonds is paid solely from enterprise revenues and are 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.
- 5.1.8. Pension Obligation Bonds.** Pension Obligation Bonds are issued to finance all or part of the unfunded pension liabilities of a pension plan. Typically, these bonds are issued at a lower rate of return than was being paid to the Pension System Administrator, and in this way, provide an economic benefit to the City.
- 5.1.9. State and Federal Loans or Other Similar Debt Instruments.** State and federal loan proceeds are an important source of funds for capital projects in addition to bond proceeds. State Revolving Funds make low cost loans available to local agencies to fund certain public infrastructure projects. Through these programs, various state agencies, such as the California State Water Resources Control Board, California Infrastructure and Economic Development Bank, and California Department of Resources Recycling and Recovery, as well as federal agencies such as the Department of Transportation and Environmental Protection Agency, offer local agencies loans to fund qualifying public infrastructure projects. Often the cost of borrowing through the loan programs is lower than the cost of issuing. Benefiting departments within the City will evaluate such programs in conjunction with the Finance Department on a case by case basis. City Council approval is required to apply for such loans.
- 5.1.10. Conduit Debt.** The City may agree to provide conduit financing for specific public purposes, such as financings for affordable rental housing and qualified 501c3 organizations. In a conduit financing, the debt is solely repaid with non-City revenues. No City funds will be pledged to the repayment of conduit debt and no appropriation of City funds will be made in the event of a default. All conduit financings must have at least one investment grade rating from a nationally recognized rating agency, or have a private placement investor committed to purchase the bonds.

## **5.2. Short-Term Debt**

Short-term debt may be issued for any 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



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the ongoing capital needs of a project or series of projects. The City will not engage in short-term borrowing solely for the purpose of generating investment returns (arbitrage). Short term debt usually may not exceed five years.

**5.2.1. 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 when needed to meet general fund cash-flow needs in a fiscal year. TRAN proceeds may be used and expended for any purpose, including operating expenses, capital expenditure, repayment of indebtedness and investment and reinvestment. TRAN proceeds may be invested at an unrestricted yield if TRANS are issued in an amount not to exceed the maximum anticipated cumulative cash flow deficit over 13 months, plus the lesser of either (i) a reasonable working capital reserve or (ii) 5% of the prior fiscal year's expenditures paid out of current revenues. TRANS are secured by the property taxes and other revenues received later in the fiscal year. Voter approval is not required.

**5.2.2. Line of Credit.** This is a contract between the issuer and a bank that provides a source of borrowed monies to the issuer in the event that monies available to pay debt service or to purchase a demand bond are insufficient for that purpose. The City may enter into agreements with commercial banks or other financial entities for purposes of acquiring a Line of Credit. Voter approval is not required.

**5.2.3. Lease-Purchase Financings.** These financings may be used for the short-term financing of essential equipment or capital assets. The term of a lease purchase agreement is typically less than 10 years but may be as long as 15 years. Under this type of financing, the City and a lessor enter into a master lease agreement for the lease-purchase of equipment or capital assets up to a certain aggregate amount. The City and the lessor then enter into separate “schedules of property” or “lease schedules” for each lease purchase of equipment or capital asset, and the City Council annually budgets and appropriates an amount sufficient to pay rent for the equipment or capital asset under lease during that year; the failure to appropriate will result in termination of the lease-purchase agreement. Voter approval is not required.

### **5.3. Refunding Financing**

The Finance Department 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 when it is needed to achieve City objectives relating to changes in 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.

**5.3.1.** There are two types of refunding transactions: a current refunding occurs when outstanding bonds are paid off within 90 days after the proceeds of refunding bonds are deposited into an escrow account with the escrow agent (typically the same entity as the trustee); and an advance refunding occurs when outstanding bonds are paid off more than 90 days after proceeds of refunding bonds are deposited into an escrow account with the escrow agent. Federal tax law does not currently permit tax exempt advance refundings.

**5.3.2.** In general, when the City undertakes a current refunding or an advance refunding for net economic benefit, the refunding should produce net present value debt service savings of at least 3%. This 3% threshold is a goal rather than a requirement, as the City may have reason to refund an issue that generates net-present-value savings of less than 3% (i.e., the refunding will eliminate unduly restrictive bond covenants or achieve a favorable restructuring of debt).

### **5.4. Other Debt**



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There may be special circumstances when other forms of debt are appropriate; these will be evaluated on a case-by-case basis by the Finance Department. Such other forms may include, but are not limited to non-enterprise revenue bonds, bond anticipation notes, grant anticipation notes and judgment or settlement obligation bonds.

## **6. Integration with Planning Goals and Objectives**

**6.1. Policy Goals Related to Planning Goals and Objectives.** The City is committed to long-term capital and financial planning, maintaining appropriate reserve levels and employing prudent practices in governance, management and budget administration. This Debt Policy, in conjunction with the City's Swap Policy, Reserve Policy, Capital Improvement Plan, Five-Year Revenue and Expenditure Forecast, Investment Policy and the Cash Reserve Policy, serves as an important tool that supports the use of the City's resources to meet its financial commitments and to maintain sound financial management practices. The City intends to issue debt for the public purposes stated in this Debt Policy and to implement policy decisions incorporated in the City's annual operating and capital budgets. This Debt Policy will help ensure that debt is issued and managed in a manner that protects the public interest.

**6.2. Relationship of Debt to Capital Improvement Plan and Budget.** The City's Capital Improvement Plan sets priorities for projects and funding while the Debt Policy provides policy direction and limitations for proposed financings undertaken to implement the Capital Improvement Plan. Debt issuances will be integrated with the goals of the capital improvement plan and capital budget by timing the issuance of debt to ensure that projects are available when needed in furtherance of the City's public purposes, and that the long-term repayment obligation is sustainable from a budgetary perspective. The City will seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from the general fund. Debt issuances for capital projects will be incorporated into the Capital Improvement Plan at the time the plan is recommended for City Council approval.

The City 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 City shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear, unless a specific revenue source has been identified for this purpose.

## **7. Internal Control Policies**

When issuing debt, in addition to complying with the terms of this Debt Policy, the City shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds. Without limiting the foregoing, the City will periodically review the requirements of and will remain in compliance with the following:

- 7.1.** Federal securities law, including any continuing disclosure undertakings entered into by the City in accordance with Securities and Exchange Commission Rule 15c2-12;
- 7.2.** Any federal tax compliance requirements, including, without limitation, arbitrage and rebate compliance; The City's investment policy as it relates to the use and investment of bond proceeds; and
- 7.3.** Government Code section 8855(k) and the annual reporting requirements therein. Proceeds of debt will be held either: (a) by a third-party trustee or fiscal agent, which will disburse such proceeds to or upon order of the City with the submission of one or more written requisitions by the Finance Department; or (b) by the City, to be held and accounted for in a separate fund or account.



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Timely authorizations and processing of transactions will be undertaken and expenditures will be carefully documented by the City to ensure proceeds are utilized for the intended use. Regular budget and schedule progress updates will be required by the Finance Department to track the status of debt-funded projects.

## **8. Debt Approval Procedures**

**8.1. Reviewed by City Council.** All proposed long-term financing transactions for capital improvements shall be reviewed by the City Council. For matters related to the City Council approval process, "long-term financing" means financing which constitutes an obligation beyond one fiscal year.

**8.1.1.** Proposed transactions submitted for City Council approval should be reviewed prior to submission by the Finance Director, City Manager and City Attorney.

**8.1.2.** Upon approval by the Finance Director, City Manager and City Attorney, the proposed transaction shall then be presented to the full City Council.

**8.2. Approval by the City Council.** All long-term financing transactions over \$10,000 should be agendaized as \*action\* items and shall be approved and adopted by the City Council. The City Council shall comply with all public hearing requirements applicable to the specific type of bond being approved.

## **9. Debt Limitations**

There is no statutory restriction on the amount of Lease Revenue Bonds or Certifications of Participation that can be outstanding at any given time. However, it is the policy of the City of Richmond that net debt service payments funded from General Fund sources shall be no greater than 10% of current General Fund revenues. Payments on bonds that are tied to a specified revenue stream other than General Fund sources (e.g. revenue bonds, tax allocation bonds and assessment bonds) are not subject to this 10% limit. Each proposed financing will be individually assessed by the Finance Department and subject to the approval policies contained herein.

The City also issues debt funded by revenues of Business-type activities, also known as Enterprise Funds. Any debt secured by revenues of an Enterprise Fund shall maintain a coverage ratio (defined as the ratio of revenues subject to the bondholders' pledge over aggregate debt service on bonds secured by the pledged revenues of the Enterprise Fund) that equals or exceeds the minimum coverage required by the rate covenant in the financing documents.

## **10. Methods of Sale**

The Finance Department shall review each transaction on a case-by-case basis to determine the most appropriate method of sale.

**10.1. Competitive Sale.** In a competitive sale, bids for the purchase of the bonds are opened at a specified place and time and are awarded to the underwriter (or syndicate) whose conforming bid represents the lowest true interest cost (TIC) to the City. The City may take bids in person, by facsimile, or by electronic means.

**10.1.1.** Bond sales shall be advertised as broadly as possible, including advertising in an industry newspaper. The financial advisors for each transaction shall undertake to provide information on the bonds to prospective bidders and investors as relevant.



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- 10.1.2. Terms of the bonds shall be amendable as late as possible and ideally until at least 1:00 p.m. Pacific Time the day prior to the day bids are to be received.
  - 10.1.3. Bond sales shall be cancelable at any time prior to the time bids are to be received.
  - 10.1.4. Upon award to the bidder whose conforming bid represents the lowest true interest cost (TIC), the City may restructure the bonds in accordance with the Official Notice of Sale.
    - 10.1.4.1. The City shall reserve the unfettered right to reject all bids or waive bid irregularities.
    - 10.1.4.2. The Finance Department shall award any bonds sold via competitive sale.
  - 10.2. **Negotiated Sale.** In a negotiated sale, the City chooses the initial buyer of the bonds in advance of the sale date. The initial buyer is usually an investment banking firm, or a syndicate of investment banking firms interested in reoffering the bonds to investors through an underwriting process. This type of sale allows the City to discuss different financing techniques with the underwriter in advance of the sale date, and is particularly appropriate for complex bond structures, difficult credit situations (such as non-rated assessment or Mello-Roos Bonds, and refundings).
  - 10.3. **Private Placement.** Also referred to as a direct placement, private placement is a variation of a negotiated sale. Instead of retaining the services of an investment banking firm to underwrite the bonds, the City will sell the bonds directly to a limited number of investors. The City may use a placement agent to assist it in identifying likely investors.

## 11. Debt Structuring Practices

- 11.1. **Standard Terms.** The following terms shall be applied to the City's transactions as appropriate. Individual terms may change as dictated by the marketplace or the unique qualities of the transaction.
- 11.2. **All Bonds**
  - 11.2.1. Term - 30 years is standard, but up to 35 years may be acceptable, depending on cash flow assumptions, construction timeline and remaining useful life of the asset being financed.
  - 11.2.2. Maximum Yield – as set by State law.
  - 11.2.3. Maximum Premium - case by case, as recommended by the City's Municipal Advisor.
  - 11.2.4. Maximum Discount - case by case, as recommended by the City's Municipal Advisor.
  - 11.2.5. Payment Dates - fixed after considering cash flow needs, the Finance Department will determine the occurrence of all new debt service payments.
  - 11.2.6. Coupons - fixed rate or variable rate.
  - 11.2.7. Call Provisions - shortest possible optional call consistent with optimal pricing.
  - 11.2.8. Structure of Debt - prefer level debt service, but shall be determined on a case-by-case basis, at the discretion of the Finance Department.



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- 11.2.9. Debt Service Reserve – case by case, as recommended by the City’s Municipal Advisor and/or the underwriter.
  - 11.2.10. Capitalized Interest – may be sized through substantial completion plus a minimum of six months unless other assets are available to be pledged or otherwise limited under Federal Tax Law. Liquidated damages of construction contract must include amount of daily debt service.
  - 11.2.11. Net Funding - the project and capitalized interest funds may be net funded if investments are secured upon issuance of bonds.
  - 11.2.12. Reimbursement Resolution - must be adopted by the City Council if the project hard costs are advanced by the General Fund prior to the bond sale.
  - 11.2.13. Good Faith Deposit - determined on a case-by-case basis by the Finance Department.
  - 11.3. **Variable Rate Bonds.** The City may elect to issue any bonds as variable rate bonds, which are broadly defined to mean daily, weekly, monthly, semi-annual or auction rate bonds.
    - 11.3.1. Purpose - reduction of net borrowing cost; match of assets and liabilities.
    - 11.3.2. Maximum Portfolio Allocation - no more than 20% of the City's outstanding debt portfolio shall be in un-hedged short-term paper consistent with policies for underlying debt types.
    - 11.3.3. Term - consistent with policies for underlying debt types.
    - 11.3.4. Maximum Yield – as set by State Law.
    - 11.3.5. Monitoring - the Finance Department shall monitor all variable rate bonds on a monthly basis and shall determine, from time to time, whether to change modes and/or replace a broker/dealer or remarketing agent.
    - 11.3.6. Budgeting Debt Service - the Finance Department will recommend that annual debt service on any variable rate bonds be budgeted at 1.5 times SIFMA Municipal Swap Index (or another relevant index or successor index to SIFMA) as of the last Wednesday in February in the year in which the budget is being prepared. The Finance Department will also include in the budget any ongoing fees associated with floating rate bonds.
    - 11.3.7. Liquidity - a liquidity facility shall be obtained, either externally or internally, for all short-term indebtedness containing a put feature.
    - 11.3.8. Mode - all bonds issued as variable rate bonds shall be issued as "multi-modal" bonds.
    - 11.3.9. Good Faith Deposit - determined on a case-by-case basis by the Finance Department.

## 12. Derivatives Policy

Derivative products and other financial instruments can be beneficial interest rate management tools that can assist the City as part of its overall debt and investment management program, but need to be monitored very



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closely. Derivative products may be used by the City to reduce risk exposures or reduce interest costs, but may not be used for speculative purposes. The City maintains a separate Swap Policy attached hereto as Appendix B.

### **13. Permitted Investments**

All investments of bond proceeds shall adhere to the City's Investment Policy, approved periodically by the City Council, as outlined in Appendix A. With the exception of guaranteed investment contracts, investments shall not allow security types or credit standards less than those of the City's Investment Policy.

**13.1. City of Richmond Investment Policy:** attached hereto as Appendix A.

#### **13.2. Investment Agreements**

**13.2.1. Purpose** - a) maximize interest earnings, thereby reducing net borrowing cost, b) match of assets and liabilities and/or c) hedging.

**13.2.2. Counterparty** - minimum rating of AA- from S&P or Aa3 from Moody's.

**13.2.3. Mandatory Termination** - limited to credit-related events and nonpayment.

**13.2.4. Cure Provisions** - timelines on City's obligations to cure must provide for appropriate legislative action.

**13.2.5. City's Priority of Payment** - termination payments - subordinate to related debt payments.

**13.2.6. Procurement/Award** - award based on best bid as defined in bid form after limited negotiation of terms.

**13.2.7. Term** - not in excess of the term of the bonds.

### **14. Professional Assistance**

**14.1. Municipal Advisors.** The City shall utilize the services of independent municipal advisor(s) on debt financing when deemed prudent by the Finance Director. All such municipal advisors should be registered with the Securities and Exchange Commission and hold the Municipal Securities Rulemaking Board Series 50 designation. The City may utilize an RFP-selected pool of such municipal advisors to mitigate time constraints and reduce overhead costs of the City in procuring such services. Services shall be documented by contract and compensation shall be capped.

**14.2. Underwriters.** In the case of a competitive sale, the City will award the bonds to the underwriting firm whose bid results in the lowest True Interest Cost. In the case of a negotiated sale, the Finance Director will determine the best method of selection, taking into consideration all factors involved in each particular sale, and shall recommend the best qualified underwriter to the City Council.

**14.3. Bond Counsel.** The Finance Department, in consultation with the City Attorney's Office, shall recommend the bond counsel for each transaction to the City Council.

**14.4. Broker-Dealers and Remarketing Agents.** For all variable rate bonds, the Finance Director shall recommend broker-dealers or remarketing agents for each transaction to the City Council. The City shall monitor performance on a monthly basis. The City may replace a remarketing agent or broker-dealer with notice at any time.



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- 14.5. **Disclosure Counsel.** The Finance Department, in consultation with the City Attorney's Office, shall recommend the disclosure counsel for each transaction to the City Council.
  - 14.6. **Trustees.** Selected for each transaction by RFP, unless use of current trustee (particularly for parity obligations) is deemed practical by the Finance Director. The Trustee (or applicable holding company) shall have a combined capital and surplus of at least \$500,000,000 and be subject to supervision or examination by federal or state authority.
  - 14.7. **Rebate Consultant.** Selected by RFP for all bonds for a set term with 1-year extensions.
  - 14.8. **Financial Printer.** Selected for each issue by RFP.
  - 14.9. **Auction Agents.** Selected for each relevant issue by RFP issued by the Finance Department or its agent and subject to negotiation of terms.
  - 14.10. **Placement Agents.** Selected for each relevant issue by RFP issued by the Finance Department or its agent and subject to negotiation of terms.
  - 14.11. **Liquidity Providers.** Selected for each relevant issue by RFP issued by the Finance Department or its agent and subject to negotiation of terms.
  - 14.12. **Investment Agreement Counterparties.** Selected by bid in compliance with Federal Tax Law Requirements in accordance with relevant bond documents and the City's Investment Policy.
    - 14.12.1. In general, uncollateralized Investment Agreements shall be executed with counterparties rated at least AAA with collateral required upon downgrade below AAA.
    - 14.12.2. Repurchase Agreements or Forward Delivery Agreements shall be executed with counterparties rated at least AA (by at least one of the major rating agencies) with downgrade provisions requiring assignment or collateral should the rating fall below A- or A3 by Standard and Poor's or Moody's Investor Services respectively.

## 15. Ongoing Debt Administration

- 15.1. **Continuing Disclosure.** It is the goal of the Finance Department to be as transparent as possible and comply with its obligations under continuing disclosure undertakings executed by the City in connection with its outstanding bonds.
- 15.2. **Annual Report.** The City will covenant to provide its annual disclosure report no later than 270 days following the end of the fiscal year. However, the City will use its best efforts to issue the Annual Report as soon as practical following the issuance of the City's annual Comprehensive Annual Financial Report (CAFR). The City shall use its best efforts to issue the Annual Report electronically on the Electronic Municipal Market Access (EMMA) system or any other successor thereto as designated by the United States Securities and Exchange Commission (SEC) or the Municipal Securities Rulemaking Board (MSRB), and to post the Annual Report on its web site. The Annual Report will also be on file with the City Clerk.



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**15.3. Material Event.** The City will issue a notice of occurrence of a material event (as defined in Appendix C) in accordance with the provisions of SEC Rule 15c2-12. Prior to the issuance of any material event, the Finance Director will consult with the Mayor, City Manager, City Attorney and policymakers or outside professionals as appropriate, to discuss the materiality of any event and the process for accurate, timely and appropriate disclosure to the marketplace.

**15.4. Post-Issuance Compliance on Build America Bonds.** The City will adhere to the instructions contained in Appendix B regarding required post-issuance activities when Build America Bonds have been issued.

Upon recommendation of the Finance Department, the City may retain a firm to assist it in maintaining compliance with all continuing disclosure requirements.

**15.5. Arbitrage Rebate Compliance.** The City shall calculate arbitrage annually in each year that the related construction fund (or equivalent) has had an outstanding balance. Thereafter, the City shall calculate arbitrage on the fifth anniversary of the bond issuance in accordance with IRS recommended practices.

**15.6. Insurance Certifications.** The City (through its Risk Manager) shall provide annual insurance certification to the Trustee and Bond Insurer, if required under the legal documents for each issue.

**15.7. Ratings.** The policy of the Finance Department is to secure underlying ratings on all newly issued obligations from at least one national rating agency.

**15.7.1. Citywide Ratings Notification.** Any changes in ratings will be promptly noticed to the City Council.

**15.7.2. Annual Meeting.** The Finance Department shall meet with each rating agency that rates City debt issues at least annually unless such meeting is declined by the respective rating agency.

**15.7.3. Annual Reporting.** The Finance Department shall ensure prompt delivery to each of the rating agencies of the following public documents:

**15.7.3.1.** Comprehensive Annual Financial Reports (CAFRs)

**15.7.3.2.** Adopted budgets

**15.7.3.3.** Other Reporting Certificates of Substantial Completion. On projects financed with long term obligations Certificates of Substantial Completion shall be delivered to the rating agencies and Bond Insurer, as relevant.

**15.8. Voluntary Disclosures.** The Finance Director may determine to file voluntary disclosure or information that is not required under any continuing disclosure undertaking. The City shall have no obligation to update any voluntary disclosure or information.

**15.9. Record Retention.** At a minimum, the following documentation shall be retained for the term of each issuance of bonds, including any refunding bonds, plus five years, or longer if contemplated by a tax certificate for a specific issuance of bonds.

(i) Continuing disclosure undertaking:

(ii) Annual Reports, including any EMMA transmittal letters and filing receipts;



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- (iii) Material Event Notices, including any EMMA transmittal letters and filing receipts;
  - (iv) CDIAC transmittal letters and filing receipts, including those related to filing of Annual Debt Transaction Reports (ADTRs), pursuant to Senate Bill 1029 (Chapter 207, Statutes of 2016);
  - (v) Rating Agency reports; and
  - (vi) Such other information as the Finance Director determines necessary or useful in accordance with the continuing disclosure undertakings.





**CITY OF RICHMOND  
INVESTMENT POLICY  
FY2020-21**

**I. Mission Statement**

It is the policy of the City of Richmond (City) to invest public funds in a manner which will provide the highest investment return with maximum security while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds.

**II. Scope**

This Statement addresses the investment policy for the City's pooled funds. The pooled funds include the General Fund, Special Revenue, Debt Service, Capital Projects, Enterprise, Internal service, Trust & Agency, Redevelopment and any other Funds authorized by the City Council which are accounted for in the City of Richmond Comprehensive Annual Financial Report (CAFR).

The investment policy for bond and note proceeds is contained in the bond documents approved by the City Council at the time of the issuance of the debt; provided, that to the extent not inconsistent with such bond documents, bond or note proceeds and in accordance with the Government Code, sections 53601(l) and 5922(d), may be invested in (i) Guaranteed Investment Contracts or other debt issuance proceeds with an investment provider rated in a category of "A" or better and with downgrade protection or (ii) Investment instruments described herein.

The investment policy for the Police and Fire Pension Fund and the General Pension Fund are contained in the City Charter.

**III. Prudence**

Investments shall be made with judgment and care - under circumstances then prevailing - which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for the investment, considering the probable safety of their capital as well as the probable income to be derived. The City holds to the "prudent investor standard" in that all investments placed shall be made with a degree of judgment and care, not for speculation, but considering the safety of the monies and acting as a fiduciary of the public trust, the prudent investor standard as set forth in Section 53600.3 of the Government Code.

**IV. Objectives**



The City's investment activities are designed to accurately monitor and forecast expenditures and revenues to:

1. Invest up to 100% of all idle funds.
2. Guarantee that funds are always available when needed.
3. Manage the portfolio to take advantage of changing economic conditions that can aid in increasing the total return on the City's portfolio.
4. Safety. The primary duty and responsibility of the Treasurer is to protect, preserve and maintain cash and investments placed in his/her trust on behalf of the citizens of the community. To attain this objective, the City will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions. Specifically, the City shall seek to preserve principal by mitigating credit risk and market or interest rate risk.
5. Liquidity. An adequate percentage of the portfolio should be maintained in liquid short-term securities that can be converted to cash if necessary to meet disbursement requirements. Since all cost requirements cannot be anticipated, investment in securities with active secondary or resale markets is highly recommended. Emphasis should be on marketable securities with low sensitivity market risks.
6. Yield. Yield, sometimes referred to as "rate of return," is the potential dollar earnings investment can provide. Yield should become a consideration only after the basic requirements of safety and liquidity have been met with measurement of investment risk and the cash flow needs.

## **V. Delegation of Authority**

Management responsibility for the investment program is hereby delegated to the Director of Finance, acting in her/his capacity as Treasurer, or the Accounting Manager who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials, and their procedures in the absence of the Director of Finance.

## **VI. Ethics and Guidelines**

1. The City adheres to the guidance provided by the "prudent investor standard".<sup>1</sup> A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is being met is if a prudent person acting in a similar situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity."

<sup>1</sup>As defined in the California Debt Advisory Commission's October 1996 document: *Local Agency Investment Guidelines: Recommendations for Implementing Recent Statutory Changes to the California Government Code Sections 16429.1 and 53600 through 53684*



2. All participants in the investment process shall act as custodians of public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.
3. In a diversified portfolio it must be recognized that occasional measured losses are inevitable and must be considered within the context of the overall portfolio investment return provided that adequate diversification has been implemented. Each issuer shall be limited in terms of their percentage of the portfolio, to minimize risk exposure.
4. In accordance with California Government Code Sections 89502 and 89503, officers and employees of the City shall refrain from any activity that could conflict with the proper execution of the investment program or that could impair their ability to make impartial investment decisions. All investment personnel shall comply with the reporting requirements of the Political Reform Act, to include the annual filing of their Statement of Economic Interest.

#### **VII. Authorized Broker/Dealers**

The Director of Finance will maintain a list of broker/dealers authorized to provide investment services. The broker/dealers will be selected by credit worthiness that is authorized to provide investment services in the State of California. These may include "primary" dealers or "regional" dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

#### **VIII. Authorized Investments and Maximum Maturities**

With the above objectives and criteria in mind, the City of Richmond may invest in the following instruments with a rating of "A" or higher (when applicable) that have maturities of five (5) years or less at the time of purchase, unless otherwise stated below:

1. Government Bonds and Notes- Maximum of 100% invested no longer than 5 years
  - i. United States Treasury Notes, Bonds, Bills, or certificates of indebtedness or those for which the full faith and credit of the United States are pledged for the payment of principal and interest;
  - ii. Treasury notes or bonds of the State of California; and
  - iii. Bonds, Notes, Warrants or other evidences of indebtedness of Any local agency within California with a minimum rating threshold of an "A".

2. Bonds and Notes of Federally Sponsored Agencies - Maximum of 100% invested no longer than 5 years, such as the Federal Farm Credit Bank, Federal Home Loan Bank, Federal National Mortgage Association, Government National Mortgage Association or any other instruments issued by a federal agency or a United States government sponsored enterprise.
3. Negotiable Certificates of Deposit issued by a Federal and State chartered bank or a Federal and State Savings and Loan Association or by any state licensed branch of a foreign bank. Purchases are not to exceed 30% of invested idle funds.
4. Local Agency Investment Fund (LAIF) - maximum of \$75 million The City may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer for the benefit of local agencies up to the maximum permitted by State law but not to exceed the aggregate limit set by the City of 60%.
5. CalTRUST a Joint Powers Authority created by public agencies to provide a convenient method for public agencies to pool their assets for investment purposes, not to exceed the aggregate limit set by the City of 75%. CalTRUST is governed by a Board of Trustees made up of experienced local agency treasurers and investment officers.
6. Medium Term Notes with a maximum of five years maturity issued by corporations organized and operating within the United States. Such securities must be rated in a rating category of "A" or better by a nationally recognized rating service. Purchases may not exceed 30% of invested idle funds in any single institution.
7. Commercial Paper of "prime quality" of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investor Service, Inc., or Standard & Poor's Corporation. Eligible paper is further limited to issuing corporations that are organized and operating within the United States and have total assets in excess of five hundred million dollars (\$500,000,000.00) and having an "A" or higher rating for the issuer's debt, other than commercial paper, if any, as provided for by Moody's Investors Service, Inc., or Standard & Poor's. Eligible commercial paper may not exceed 270 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation. Purchases of commercial paper may not exceed 25% of the City's surplus money that may be invested pursuant to this section.
8. Money Market Funds are eligible for investment if the companies providing the mutual funds invest only in instruments authorized by Government Code, Sections 53601 and 53630. In order to be an eligible



money market investment under this section:

- The money market shall have attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations, and shall maintain these ratings for the duration of the investment.
- Retain an investment advisor registered with the Securities and Exchange Commission (SEC) with not less than five (5) years' experience investing in securities and obligations.
- The fund shall have a minimum of \$500 million to total asset size of portfolio at time of investment, and should not drop below this threshold.
- The purchase price of the share of beneficial interest shall not include any commission that these companies charge.
- Purchases shall not exceed 20 percent of the City's idle funds

#### Summary of Maximum Percentage Limitations of Investments, by Investment Type

The following summary of maximum percentage limits, by instrument, is established for the City's total pooled fund's portfolio:

<u>Investment Type:</u>	<u>Percentage</u>
U.S. Treasury Bills, Notes, and Bonds	0 to 100%
U.S. Government Agency Obligations	0 to 100%
Negotiable Certificates of Deposit Local	0 to 30%
Local Agency Investment Fund (LAIF)	0 to 60% (Max \$75 million)
CalTRUST	0 to 75%
Medium Term Notes	0 to 30%
Commercial Paper	0 to 25%
Money Market Funds	0 to 20%

#### **IX. Reporting and Review of the Investment Portfolio**

The Director of Finance shall report monthly on the City's pooled and Bond funds to the City Manager and City Council and shall report quarterly on other investments, such as pension funds. The following elements will be part of the investment report:

1. Type of investment
2. Institution/Issuer
3. Date of maturity
4. Cost of security (par amount) and dollar amount in all securities
5. Description of the funds, investments and programs managed by

- contracts
6. Current market value of securities
  7. Rate of return
  8. Statement of compliance to meet pool expenditure requirements for the next six months
  9. If, in any case, pool expenditures are not met, an explanation of why sufficient monies will not be available.

## **X. Investment Pools**

Government sponsored investment pools (Pools) are permitted under California Government Code Section 53601 et seq. and an excellent short-term investment option for cash management facilities. These pools can provide safety, liquidity and yield in a single diversified investment. However, thoughtful investigation and due diligence are required both initially at the time of purchase and ongoing analysis to determine that the investment pool is being managed in a manner consistent with the objectives of the Policy.

State of California's Local Agency Investment Fund (LAIF) is an example of a Pool. The City may invest in the LAIF established by the State Treasurer for the benefit of local agencies up to the maximum permitted by State law, but not to exceed 50% of the cost value (book value) of the total portfolio exclusive of the fiscal agent cash portfolio. Each agency is limited to an investment of \$75 million per account currently, but subject to change.

## **XI. Collateralization**

Collateral for Certificates of Deposit (CD) and Negotiated Certificates of Deposit (NCD) must comply with Government Code, Chapter 4, Bank Deposit law Section 16500 et seq. and the Savings and Loan and Credit Union Deposit law Government Code Section 16600 et seq. In addition, if the CD is not FDIC insured or goes over the FDIC \$250,000 limit, collateral is required to equal 100 percent of the principal of either U.S. Treasury securities or Federal Agency securities.

Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained. The right of collateral substitution is granted, within the parameters and constraints of the Policy.

## **XII. Safekeeping and Custody**

Securities purchased from broker/dealers shall be held in third party safekeeping by the trust department of the City's bank or other designated third party, in the City's name and control. The basic premise underlying the City's investment philosophy is and will

continue to be to ensure that money is always safe and available when needed. All trades executed by a dealer will settle deliver vs. payment (DVP) through the City's safekeeping agent. Securities held in custody for the City shall be independently audited on an annual basis to verify investment holdings.

### **XIII. Diversification and Risk Tolerance**

The City of Richmond recognizes diversification is an investment strategy that will mitigate risk in the investment portfolio. Portfolio diversification is employed as a way to control risk. The City's investment portfolio shall be diversified to avoid incurring unreasonable and avoidable risks with regard to specific investment types. Within investment types, the City shall also maintain a mix of securities to avoid concentrations with individual financial institutions, geographic areas, industry types and maturities. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio. The Treasurer shall periodically establish guidelines and strategies to control risks of default, market price changes, and illiquidity.

### **XIV. Internal Control**

The Treasurer or designee shall maintain a system of internal controls designed to ensure compliance with the Investment Policy and to prevent losses due to fraud, employee error, and misrepresentations by third parties or unanticipated changes in financial markets.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Director of Finance with the following: audited financial statements, proof of FINRA certification, and proof of state registration, completed broker/dealer questionnaire, and certification of having read the City's investment policy.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Director of Finance. The bidding process shall be conducted every five years. The current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City invests.

### **XV. Performance Standards**

- A. The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.
- B. The investment performance objective for the portfolio shall be to earn a total rate of return over a market cycle which is approximately equal to the return on a market benchmark Index of similar securities, as determined

by the Director of Finance.

#### **XVI. Investment Policy Adoption**

The investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed annually by the Council and any modification made thereto must be approved by the City Council.

#### **XVII. Interest Earnings**

All moneys earned and collected from investments authorized in this policy shall be allocated quarterly to various fund accounts based on the daily cash balance in each fund as a percentage of the entire pooled portfolio. Should any fund not have a daily cash balance at the end of a quarter, it will receive none of the moneys earned and collected from the pooled investments. Furthermore, should any fund have a temporary negative daily cash balance at the end of a quarter, the negative amounts will be reallocated to provide earnings to the funds with a positive daily cash balance.

#### **XVIII. Restrictions**

1. The City will not invest any funds in inverse floaters, range notes, or interest-only STRIPS (Separate Trading of Registered Interest and Principal of Securities) that are derived from a pool of mortgages.
1. The City will not invest any funds in any security that could result in zero interest accrual if held to maturity. This limitation does not apply to investments in shares of beneficial interest (money market mutual funds) that are authorized elsewhere in the Investment Policy.
3. It is the City's policy not to invest in companies involved in the manufacturing of tobacco and tobacco-related products such as cigarettes, cigars, pipe tobacco, chewing tobacco, etc.
4. In accordance with the Slavery Era Insurance Ordinance 14-05 N.S. Section 2.29.030 Social Disclosure on Gains from Slavery effective July 1, 2005, the City will not invest any funds in international financial instruments that benefited from slavery. The City Council prohibits, by social investment policy, such investments and reserves the absolute right to divest from such investments with the cost of divestment being borne by the contracting institution.
5. In accordance with Resolution 38-13 effective May 7, 2013 the City declared it a policy of the City of Richmond to not invest in Fossil Fuel companies and urges the Board and Management of the City's Pension funds to divest from



publicly-traded Fossil Fuel Companies.

6. In accordance with the Sanctuary City Ordinance 12-18 N.S. Section 4 Prohibition on Investments effective June 5, 2018, the City shall not make any investments in stocks, bonds, securities, or other obligations issued by any provider of Data Broker or Extreme Vetting services to United States Immigration and Customs Enforcement (ICE).

## GLOSSARY

**Agencies:** Federal agency securities and/or Government-sponsored enterprises.

**Bankers' Acceptance (BA):** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

**Benchmark:** A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

**Bid:** The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

**Broker:** A broker brings buyers and sellers together for a commission.

**Certificate of deposit (CD):** A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

**Collateral:** Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**Comprehensive Annual Financial Report (CAFR):** The official annual report for the government agency. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

**Data Broker:** Means either 1) the collection of information, including personal information about consumers, from a wide variety of sources for the purpose of reselling such information to their customers, which include both private-sector businesses and government agencies; 2) the aggregation of data that was collected for another purpose from that for which it is ultimately used.

**Dealer:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

**Delivery versus Payment (DVP):** There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.



**Diversification:** Investment contained within the portfolio will be diversified by security type, institution and maturity.

**Extreme Vetting:** Data mining, threat modeling, predictive risk analysis, or other similar services.

**Federal Deposit Insurance Corporation (FDIC):** A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

**Federal Home Loan Banks (FHLB):** Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

**Federal National Mortgage Association (FNMA):** FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

**Federal Reserve System:** The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

**Fossil Fuel:** A fuel formed by natural processes, such as anaerobic decomposition of buried dead organisms, containing organic molecules originating in ancient photosynthesis that release energy in combustion such as: coal, oil, and gas reserves as measured by the gigatons of carbon dioxide that would be emitted if those reserves were extracted and burned.

**Government National Mortgage Association (GNMA or Ginnie Mae):** Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. The security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FHA mortgages. The term "pass-through" is often used to describe Ginnie Maes.

**Liquidity:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at

those quotes.

**Local Government Investment Pool (LGIP):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

**Market Value:** The price at which a security is trading and could presumably be purchased or sold.

**Maturity:** The date upon which the principal or stated value of an investment becomes due and payable.

**Money Market:** The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

**Offer:** The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Bid.

**Portfolio:** Collection of securities held by an investor.

**Primary Dealer:** A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

**Prudent Person Rule:** An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state-the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

**Rate of Return:** The yield obtainable on a security based on its purchase price or its current market price. This interest may be amortized yield to maturity on a bond or the current income return.

**Sanctuary City:** A municipal jurisdiction that limits its cooperation with the national government's effort to enforce immigration law.

**Safekeeping:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

**Secondary Market:** A market made for the purchase and sale of outstanding issues following the initial distribution.

**Securities & Exchange Commission:** Agency created by Congress to protect investors in securities transactions by administering securities legislation.



**Securities and Exchange Commission (SEC) Rule 15C3-1:** See Uniform Net Capital Rule.

**Treasury Bills:** A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

**Treasury Notes:** Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

**Uniform Net Capital Rule:** Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

**United States Immigration and Customs Enforcement (ICE):** A federal law enforcement agency under the U.S. Department of Homeland Security. ICE's stated mission is to protect America from the cross-border crime and illegal immigration that threaten national security and public safety.

**Yield:** The rate of annual income return on an investment, expressed as a percentage. (a) Income Yield is obtained by dividing the current dollar income by the current market price for the security. (b) Net Yield or Yield to Maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

**Interest Rate Swap Policy of the City of Richmond  
Established by the Finance Department**

*Fiscal Year 2020-21*

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**Scope and Authority**

*This Interest Rate Swap Policy (the Policy), established by and for the Finance Department, is designed to provide procedural direction to the City of Richmond Finance Department, the Richmond Housing Authority, the Richmond Community Redevelopment Agency, the Richmond Joint Powers Finance Authority and the City itself regarding the utilization, execution, and management of interest rate swaps and related instruments (collectively, "interest rate swaps"). 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. Periodically, but at least annually, the City will review the Policy and shall make modifications as appropriate due to changes in the business environments or market conditions.*

*The City of Richmond is authorized under California Government Code Section 5922 to enter into interest rate swaps to reduce the amount and duration of rate, spread, or similar risk when used in combination with the issuance of bonds.*

*This Policy and any subsequent amendments hereto shall be on file with Finance Department, maintained on the City's website, with copies delivered to the City Clerk, the City Council and the Chair of the Finance Committee of the City Council.*

**Mission of the Finance Department Treasury Division**

The Finance Department shall issue and manage short and long-term financings (bonds, TRANS, etc), both for capital improvement and operating needs, by balancing market and credit risk with satisfactory economic benefits and proper fiscal controls.

**I. Interest Rate Swap Objectives**

- Reduce or manage exposure to changes in interest rates on a particular financial transaction or in the context of the management of interest rate risk derived from the City's overall asset/liability balance consistent with prudent debt and risk guidelines.
- Result in a lower net cost of borrowing with respect to the City's debt or achieve a higher net rate of return on investments made in connection with, or incidental to the issuance, or carrying of the City's debt obligations or other City investments.
- Manage variable interest rate exposure consistent with prudent debt practices.

- Enhance investment returns within prudent risk guidelines.
- Manage exposure to changing market conditions in advance of anticipated bond issues (through the use of anticipatory hedging instruments).
- Achieve more flexibility in meeting overall financial objectives than can be achieved in conventional markets.

## **II. Permitted Instruments**

The City may utilize the following financial products on a current, or forward basis, after identifying the objectives to be realized and assessing the attendant risks.

- Interest rate swaps, including (i) pay fixed/receive floating swaps (fixed rate swaps), (ii) receive floating/pay fixed swaps (floating rate swaps) and (iii) pay floating/receive floating swaps (basis swaps). Swaps may include option features, such as for the extension, cancellation, or index conversion of the swap.
- Interest rate caps, floors, and collars.
- Stand-alone options to enter into swaps (swaptions) on a particular date, series of dates, or during a particular period of time in the future.

## **III. Conditions for the Use of Interest Rate Swaps**

Each Agreement and Transaction will be entered into not for purpose of speculation, but solely in connection with the financing activities of the City.

- A. General Usage** Interest rate swaps may be used to lock-in a fixed rate or, alternatively, to create additional variable rate exposure. Interest rate swaps may be used to produce interest rate savings, limit or hedge variable rate payments, alter the pattern of debt service payments, or for asset/liability matching purposes.
- B. Liquidity Considerations** The impact on the cost and availability of letters of credit and liquidity support for both new and existing variable rate programs shall be considered when evaluating the issuance of new variable rate bonds which are to be swapped to a fixed rate liquidity support. Due to the limited supply of letter of credit or liquidity facility support in connection with variable rate bonds, higher overall costs may result.
- C. Call Option Value Considerations** When considering the relative advantage of a fixed rate swap to fixed rate bonds, the value of the call option that would typically be purchased for the fixed rate bonds shall be compared to the incremental present value of the savings from using a swap. This shall be done to ensure the benefit from use of the swap will provide sufficient compensation to offset the expected value of any foregone future refunding savings.

#### **IV. Interest Rate Swap Features**

**A. Interest Rate Swap Agreement** Each interest rate swap executed by the City shall contain terms and conditions as set forth in an International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, including any Schedules to the Master Agreement, Confirmations and Credit Support Annexes, or other comparable agreement widely used by recognized derivatives dealers. The swap agreements between the City and each qualified swap Counterparty shall include payment, term, security, collateral, default, remedy, termination, and other terms, conditions and provisions as the Finance Director deems necessary or desirable.

The City may use law firms and financial advisory firm(s) with recognized experience in derivatives transactions to assist in preparation of the swap documents.

**B. Interest Rate Swap Counterparties** The City will do business only with qualified swap counterparties. Qualified counterparties are institutions whose long-term credit rating or whose obligations are guaranteed by a financial institution whose long term credit rating are at the time the swap is entered into at least as high as "A" or "A2" or equivalent and that have a demonstrated record of successfully executing swap transactions. The City will structure interest rate swap agreements to protect itself from credit deterioration of counterparties, including the use of ratings-based termination events, credit support annexes or other forms of credit enhancement. Such protection shall include any terms and conditions which the City deems necessary or appropriate to protect its interests.

**C. Term and Notional Amount** The City shall determine the appropriate term and size for an interest rate swap agreement on a case-by-case basis. In connection with the issuance or carrying of bonds, the outstanding notional amount of a swap agreement should relate to the amortization of the related existing or anticipated debt of the City. While entering into a swap with a term less than the associated bonds may be appropriate, if the intent is to "rollover" the swap, the City will be subject to the uncertainties of entering into a new swap at then prevailing market conditions.

**D. Collateral Requirements** Terms imposing collateral requirements based on credit ratings of the counterparty, requiring collateralization or other forms of credit enhancements to secure any or all swap payment obligations may be included as part of any swap agreement. The collateral requirements will be determined in consultation with counsel and the financial advisor and/or swap advisor, and may require the counterparty to post securities, surety bonds, letters of credit or other credit enhancement if the highest credit rating of the counterparty, its parent, or guarantor is or falls below a rating of "AA-" or "Aa3". Additional collateral for further decreases in credit ratings of each counterparty shall be posted in accordance with the provisions contained in the CSA or other collateral support agreement of the Agreement.

Threshold collateral amounts shall be determined on a case-by-case basis. Reasonable threshold limits will be established for the initial deposit and for increments of collateral posting thereafter. Collateral shall be deposited with a third party trustee or as mutually agreed upon between the City and the counterparty. A list of acceptable securities that may be posted as collateral and the valuation of such collateral will be determined and mutually agreed upon during negotiation of the swap agreement with each swap counterparty. The market value of the collateral shall be determined on a monthly basis, or more frequently if the City determines it is in its best interest given the specific nature of the swap(s) and/or collateral security.

**E. Security and Source of Repayment** Generally, the same security and source of repayment (pledged revenues) will secure the interest rate swaps as is used to secure the bonds that are hedged or carried by the swap, if any. The costs and benefits of subordinating the payments under the swap and/or termination payment shall be considered.

**F. Cancellation Provisions** The benefit of purchasing the right to cancel the interest rate swap at no cost (par call) after a specified period of time, generally 5 to 10 years shall be evaluated. If the cancellation option is cost efficient relative to the cost of obtaining a bond call option for a similar starting period, it will be purchased. A par call termination provision mitigates some risks of the swap, by allowing a no-cost termination any time after the exercise date.

**G. Prohibited Interest Rate Swap Features** The City will not use interest rate swaps that (i) are speculative or create extraordinary leverage or risk, (ii) lack adequate liquidity to terminate without incurring a significant bid/ask spread, (iii) provide insufficient price transparency to allow reasonable valuation, or (iv) are used as investments.

## **V. Evaluation of Proposed Transactions**

The City's staff shall undertake an evaluation of any proposed transaction. This will include, but not be limited to, consideration of the following:

- Assessment of all inherent risks of the transaction including, but not limited to those outlined below (see **Interest Rate Swap Risks**)
- Alternative financing options and a comprehensive evaluation of the potential risks and expected benefits of the interest rate swap relative to such other options.

- Security and source of payments, for both scheduled and termination payments, and the integration of the swap into the City's debt program.
- Procurement process and the suitability of the contemplated counterparties to the swap, taking into account any existing exposure to such counterparties.
- Impact on City's credit and liquidity profile and how other financial arrangements, existing or expected, may be impacted by the swap.
- Analysis of impact on the City's net variable rate interest exposure from the contemplated transaction and any potential budgetary impact.
- Cost and availability of on-going resources for the effective operations and risk management of the swap.
- Tax, accounting, or other compliance requirements relative to other options.
- If the transaction includes option components, analysis of circumstances under which the option will likely, or not likely, be exercised and the consequences of each outcome.
- Volatility Exposure (as outlined herein) for each counterparty for all existing and any proposed transactions.

## **VI. Interest Rate Swap Risks**

Before proceeding with a swap transaction, the City must reasonably conclude that the expected benefits of the transaction outweigh the expected risks, that the risks are within acceptable levels, and that the contemplated transaction does not impose risks that threaten the City's ability to perform its core functions. The transaction must be reasonable in relation to the City's overall financial condition and capitalization.

The City shall, with its advisors and legal counsel, structure swap transactions with terms and provisions that will help mitigate such risks to the extent practicable and cost-effective. The City shall have a plan for the on-going monitoring and risk management of swap transactions.

**A. Counterparty Risk** The failure of the counterparty to make required payments or otherwise comply with the terms of the swap agreement. If the swap is terminated prior to its scheduled final cash flow date and the City's swap position has increased in value, the City will be owed a termination amount and therefore will have credit exposure to its counterparty for collection of any such amount.

**1. Assessment** The City will monitor counterparty exposure levels, ratings thresholds, and collateralization requirements.

**B. Termination Risk** The risk that an interest rate swap agreement must be terminated prior to its stated final cash flow date, and that the City cannot obtain a replacement transaction with substantially similar term, including because of deterioration of the City's own credit. In such a circumstance, the City could owe, or be owed, a termination payment.



**1. Assessment** The City will monitor the ratings of counterparties, insurers, and guarantors.

**VII. Counterparty Credit Exposure**

The City will manage its counterparty credit exposure (i.e., amounts which would become due to the City if the swaps with a particular counterparty were to terminate early pursuant to a default or other similar event) through diversification and active trade management. In order to manage the City's exposure, the City shall annually calculate and review the current market evaluation of all outstanding swaps, subtotaled by counterparty and by security and source of payment (as applicable). In addition, for each counterparty, the City will review the then current long-term credit ratings and the ratings outlook, including the date of the last rating update. The calculation of termination exposure per counterparty will be on a net basis by taking into consideration multiple transactions, some of which may offset the overall exposure to the City.

In addition, the City shall annually estimate the interest rate volatility risk ("Volatility Exposure") of the City's swap portfolio. The purpose of the Volatility Exposure is to measure what impact a significant change in interest rates would have on the City's swap portfolio. Volatility Exposure will be calculated assuming (i) an upward shift of 150 basis points in the yield curve and (ii) a downward shift of 150 basis points in the yield curve. The assumed shift will be reviewed periodically to ensure that they remain appropriate.

**Example of Counterparty Credit Exposure Information (Illustration Purposes Only)**

Counterparty	S&P (Date) Moody's (Date)	Outlook	Market Value of Transactions	Volatility Exposures Market Value
Provider A	A+ (1/1/04) A2 (1/1/05)	Stable Negative	\$3 million	VolExpup \$4 million VolExpDown -\$1 million

**A. Exposure Review of Existing Swaps** While collateralization reduces credit risk, collateralization introduces other risks, principally legal and operational. In order to manage these other risks, the City shall limit the amount of exposure to any one counterparty, regardless of the counterparty credit ratings and threshold levels. Credit exposure may be reduced, for example, through a swap termination, in whole or in part, or a restructuring of the swap to an on-market rate with a smaller notional amount accompanied by a cash payment to the City, which could then be used to redeem underlying debt obligations. These counterparty credit risk guidelines will not mandate or otherwise force automatic termination by the City or the counterparty.

**B. Exposure Review of Proposed Swaps** Prior to entering into a new swap transaction, the City, as part of its evaluation of the proposed transaction, will compute the Volatility Exposure by treating the proposed swap transaction as an outstanding swap. Such provisions will act only as guidelines in making a determination as to whether or not a proposed transaction should be executed given certain levels of existing and projected net termination exposure to a specific counterparty. These guidelines are not intended to require retroactively additional collateral posting for existing transactions.

## **VIII. Ongoing Risk Management and Reporting Requirements**

**A. Active Management** The City will seek to maximize the benefits and minimize the risks it carries by actively managing its interest rate swap program. This will entail monitoring the adequacy of posted collateral, compliance with accounting requirements, and periodic monitoring of market conditions for emergent opportunities and risks. Active management may require modifications of existing positions including, for example:

- Early Termination;
- Shortening or lengthening the term;
- Sale or purchase of options;
- Basis conversion

**B. On-going Reporting** A report providing the status of all interest rate swap agreements entered into by the City will be prepared no less frequently than annually and shall include the following:

- A description of all outstanding interest rate swap agreements, including project and bonds series, type of swap, rates paid and received by the City, total notional amount, average life of each swap agreement, and remaining term of each swap agreement.
- Highlights of all material changes to swap agreements or new swap agreements entered into by the City since the immediately preceding report.
- Market value of each of the City's interest rate swap agreements.
- The credit rating of each swap counterparty and credit enhancer insuring swap payments, if any.
- Listing of any credit enhancement, liquidity facility or reserves and accounting of all costs and expenses associated with the credit enhancement, liquidity facility or reserves.
- The market value for each transaction and the aggregate for each counterparty.

## Appendix C

### List of Material Events (Last Revised November 10, 2020)

The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to bonds issued by or for the benefit of the City, no later than ten (10) business days after the occurrence of such event:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the bonds, or other material events affecting the tax status of the bonds.
7. Modifications to rights of the holders of the bonds, if material.
8. Bond calls, if material, and tender offers.
9. Defeasances.
10. Release, substitution, or sale of property, if any, securing repayment of the bonds, if material.
11. Rating changes.
12. Bankruptcy, insolvency, receivership or similar event of the City or other obligated person;
13. The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.
15. 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.

“Financial Obligation” means a debt obligation; derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or a guarantee of a debt obligation or derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation. The term “Financial Obligation” excludes municipal bonds for which a final offering memorandum has been provided to the MSRB consistent with the Rule.

16. 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.

