

RESOLUTION NO. 124-22

**A RESOLUTION OF THE COUNCIL OF THE CITY OF RICHMOND,
CALIFORNIA, ADOPTING THE DEBT POLICY FOR FISCAL YEAR 2022-23**

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 current 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 FY 2022-23.

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.

I certify that the foregoing resolution was passed and adopted by the City Council of the City of Richmond at a regular meeting thereof held September 20, 2022, by the following vote:

AYES: Councilmembers Bates, Jimenez, Johnson III, McLaughlin, Willis, Vice Mayor Martinez, and Mayor Butt.
NOES: None.
ABSTENTIONS: None.
ABSENT: None.

PAMELA CHRISTIAN
CLERK OF THE CITY OF RICHMOND
(SEAL)

Approved:

THOMAS K. BUTT
Mayor

Approved as to form:

DAVE ALESHIRE
Interim 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. 124-22**, finally passed and adopted by the City Council of the City of Richmond at a regular meeting held on September 20, 2022.



Pamela Christian, Clerk of the City of Richmond

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City of Richmond

Debt Policy

Fiscal Year 2022-23

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 Annual Comprehensive Financial Report (ACFR) provides a complete list of the outstanding long-term obligations. The sections in the ACFR 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 ACFR 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.



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



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



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.



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 agendized 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 unhedged 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



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 Financial Report (ACFR). 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.** Annual Comprehensive Financial Reports (ACFR's)
- 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.

