



Meeting Date: December 3, 2024

TO: Mayor and Councilmembers

**SUBMITTED BY:** Luke Rioux, Finance Director

**SUBJECT:** Debt Issuance Disclosure Training

#### **RECOMMENDATION:**

Receive a presentation on debt issuance disclosure training by the City's Bond and Disclosure Counsels.

#### **BACKGROUND:**

As part of the process for issuing sales tax revenue bonds and lease revenue bonds (collectively, the "bonds"), the City must comply with federal securities laws, including those administered by the Securities and Exchange Commission (SEC). These laws govern the type and accuracy of information disclosed in connection with the offering of the bonds and aim to ensure transparency and informed decision-making by potential investors.

Municipal officials, including City Councilmembers, have a critical role in the preparation and review of the information disclosed, whether in the Preliminary Official Statement (POS), the Final Official Statement (OS), or any other documents related to the bonds. Understanding these disclosure responsibilities is essential to ensure compliance with applicable laws and to mitigate risks to the City.

### **DISCUSSION:**

To support the City Council in fulfilling its fiduciary and legal obligations, the City's Bond and Disclosure Counsels will provide training on disclosure responsibilities under federal securities laws. This training will include:

- Overview of Disclosure Obligations: Legal requirements for the content and timing of disclosures in connection with bond offerings.
- Role of Elected Officials: The importance of diligence and participation in the review process for bond-related disclosures.
- **Key Concepts:** Materiality, accuracy, and completeness of disclosed information.
- Liability Considerations: Potential risks and consequences for non-compliance,

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including enforcement actions by the SEC.

A copy of the presentation is attached for reference and will be discussed in detail at the meeting. Additionally, the City's Debt Management Policy and Post Issuance and Continuing Disclosure Procedures are included as attachments. The Debt Management Policy outlines the City's approach to responsible, transparent, and strategic use of debt financing, ensuring financial flexibility and adherence to best practices. The Post Issuance and Continuing Disclosure Procedures provide detailed guidance on compliance with federal securities laws and continuing disclosure obligations under SEC rule 15c2-12. Together, these documents establish a comprehensive framework for the City's debt management and disclosure practices.

#### **FISCAL IMPACTS:**

There is no direct fiscal impact associated with this item.

#### **ALTERNATIVES:**

The purpose of this report is to provide training to the City Council on disclosure responsibilities under federal securities law. Ther are no alternatives presented.

**LEGAL REVIEW BY:** Isaac Rosen, Acting City Attorney

**APPROVED BY:** Robert Nisbet, City Manager

### **ATTACHMENTS:**

- 1. Presentation
- 2. Debt Management Policy and Post-Issuance and Continuing Disclosure Procedures

# **Attachment 1**

Presentation

# Disclosure Responsibilities Under the Federal Securities Laws

# Presentation to the City of Goleta



Presented by:

Vanessa Legbandt Stradling Yocca Carlson & Rauth LLP Kevin Hale, Esq. Orrick, Herrington & Sutcliffe LLP





# Why Is Disclosure Necessary?

The City issues securities in the public capital markets



Investors in municipal securities have rights under federal securities laws



All "material" information must be disclosed





# Federal Securities Acts



- Securities Act of 1933 Section 17(a)
- Securities Exchange Act of 1934 Rule 10b-5
- Both 1933 Act and 1934 Act contain antifraud provisions, which apply to municipal securities





# Federal Securities Acts



Section 17(a), in part: It shall be unlawful for any person in the offer and sale of securities. . .

(2) to obtain money or property by means of any untrue statement of a material fact or any omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading . . ..

Rule 10b-5: "It shall be unlawful for any person in connection with the purchase or sale of any security . . .

- a) To employ any device, scheme or artifice to defraud,
- b) To make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.





# The "Materiality" Standard

- "[w]hether or not there is a substantial likelihood that a reasonable investor or prospective investor would consider the information important in deciding whether or not to invest."
- Materiality is determined in context of all the facts and circumstances, but usually in <u>hindsight</u>
- Guidance comes primarily from court decisions and SEC enforcement cases





# When Do Disclosure Rules Apply?

- New offerings
- Ongoing Continuing Disclosure
  - Annual Report under Rule 15c2-12
  - Rule 15c2-12 Material Event Notices
- Any other circumstance where an Issuer is "speaking to the market"
  - Speeches and presentations by senior staff and by elected officials
  - Social Media
  - Website
  - Investor Communications





# Official Statement

- Official Statement is offering document to investors (equivalent to a prospectus)
- Must contain all material information for the particular bond sale
- Official Statement is the <u>City's document</u>
- City Council and staff have separate responsibilities
- Underwriters, municipal advisers and lawyers help develop the Official Statement but the City is ultimately responsible for content





# What Should Be Disclosed?

- Unlike corporate securities, there is no "line item" set of rules for what goes into an Official Statement
- Look at practices in the industry; recent developments
- Important to maintain Attorney-Client privilege for sensitive issues
- Political sensitivity and confidentiality considerations are <u>not</u> exceptions to disclosure





# Disclosure Process

- Seek input from key officials
- Empower staff at all levels
- Disclosure Counsel helps pull information together and produces a draft Preliminary Official Statement ("POS")
- Draft POS reviewed by City staff and Financing Team
- City Council review and approval
- Review for information not fully socialized to staff





# Secondary Market Disclosure

- To assure investors current financial information, issuers of municipal obligations are obligated to provide:
  - Annual Financial Information
  - Notice of Certain Listed Events
  - Notice of Other Financial Obligations such as capital leases and credit agreements





# Content of Annual Reports

- Audited Financial Reports
- Information (i.e. tables) identified in Continuing Disclosure Undertaking
- Additional voluntary information
- Consider Rule 10b-5 implications is there more you should be saying?
- Has anything happened since the date of the audited financial reports that has materially impacted your financial condition?





# Consequences of Bad Disclosure

SEC Active Whistleblower Program

SEC Investigation – fees for lawyers and consultants

Personal fines; Industry Bar

Reduced market access

May have to impose new procedures and oversight to settle SEC actions

Rating Downgrades (triggers increased borrowing cost)





# Questions?

# **Contact:**

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# Attachment 2

Debt Management Policy and Post-Issuance and Continuing Disclosure Procedures



# Debt Management Policy

(Revised on April 20, 2018)



# **Executive Summary of Debt Management Policy**

- I. Goals and Objectives. In implementing a formal debt management policy, the City's goal is to maintain long-term financial flexibility while ensuring that the City's capital needs are aligned with goals and supported by sound financial management.
- II. Approach to Debt Management. The City's approach to its financings is to ensure continued market access at the lowest cost of borrowing. As such, the Debt Policy designates affordability or capacity targets which are established by the rating agencies (Moody's Investor Service, Standard & Poor's, and Fitch). Debt capacity is defined as annual debt service payments as a percentage of operating expenditures and debt service payments. The debt capacity ratio will be calculated each year. Below are the debt capacity ranges:

Low debt capacity
 Moderate debt capacity
 High debt capacity
 >5% - 15%
 >15%

A separate Debt Affordability Study will be presented when new debt is being considered.

- III. Debt Administration. The Finance Department is responsible for the City's debt administration activities. Internal control procedures are designed to ensure that the proceeds of any debt issuance are directed to the intended use. When issuing debt, the City will comply with all applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds. The City will maintain compliance with all federal and state laws and reporting requirements.
- **IV.** Standards for Use of Debt Financing. Debt financing will be utilized when public policy, equity and economic efficiency favor debt over pay-as-you-go financing.
  - Debt will be used to finance long-term capital projects, and the respective maturities will not exceed the respective projects' useful lives.
  - The City will seek to use the most economical financing alternative.
  - The City will ensure good record-keeping and compliance with all debt covenants and State and Federal laws.

- V. Financing Criteria. Whether issuing long- or short-term debt, the City will determine the most appropriate structure, the mode (fixed or variable), and the possible use of synthetic fixed or floating rate debt. These decisions will be made within the context of already existing obligations.
- VI. Terms and Conditions of Bonds. In the issuance of its bonds, the City shall carefully consider and evaluate the term of the financing, use of capitalized interest, call provisions, original issue discount and the use of deep discount bonds.
- VII. Credit Enhancement. The use of credit enhancement is to be considered on a case-by-case basis and will be purchased only when debt service savings can clearly be demonstrated.
- **VIII. Refinancing Outstanding Debt**. A minimum savings threshold of 3% or \$200,000 in present value savings is utilized except when there are legal reasons for defeasance.
- **IX. Methods of Issuance**. The preferred sale method (negotiated or competitive) will be determined for each issuance of bonds. General Obligation Bonds and Tax and Revenue Anticipation Notes will be issued on a competitive basis.
- X. Underwriter Selection. Both senior managers and co-managers will be selected on the basis of firm and staff qualifications, and experience with structures similar to the proposed issuance. Selling groups may be considered for certain transactions. All parties are subject to post-evaluation of performance.
- XI. Market Relationships. The City will actively manage its relationships with the various rating agencies and analysts through frequent and open communication. The City will maintain compliance with Rule 15c2-12 by the timely filing of its annual financial statements and other financial and operating data for the benefit of its bondholders. The City will also ensure compliance with regulations set forth in Government Code Section 8855 and comply with all annual reporting requirements to the California Debt and Investment Advisory Commission.
- XII. Consultants. An RFP or an RFQ will be used to determine the selection and appointment of Consultants, such as financial advisors. The selection of the firm(s) shall be based upon firm and staff qualifications, and experience with debt structures similar to what is being proposed. Consultants will be required to provide complete disclosure regarding any agreements with other financing team members and outside parties.



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# CITY OF GOLETA Debt Management Policy

#### I. Introduction

So as to maintain the highest quality debt management program possible, the City of Goleta ("City") has adopted the guidelines and policies set forth in this document, referred to hereafter as the "Debt Management Policy." The Debt Management Policy is intended to guide decisions related to debt supported by the City's general fund and any other related entities. Debt issuance for related entities should be evaluated on an individual basis as well as within the context of the City's general debt management program. The Debt Management Policy is not applicable to intra-City borrowing.

# **Goals and Objectives**

The Debt Management Policy formally establishes parameters for issuing debt and managing a debt portfolio which encompass the City's specific capital improvement needs, its ability to repay financial obligations, and the existing legal, economic, financial and debt market conditions. The policies outlined in the Debt Management Policy ensure that adequate financial resources are available to support the City's long-term capital needs and align with the City's goals. Specifically, the policies outlined in this document are intended to assist the City in the following:

- A. Evaluating critical debt issuance options
- **B.** Promoting sound financial management and that the issuance of debt is consistent with policy goals and objectives and the capital plan or budget of the City
- **C.** Provide accurate and timely information on financial conditions
- **D.** Maintaining appropriate capital assets for present and future needs
- **E.** Protecting and enhancing the City's credit rating
- **F.** Ensuring the legal use of City bonding authority through an effective system of financial security and internal controls to ensure that debt proceeds will be directed to the intended use in accordance with all applicable statutory and policy requirements

- **G.** Promoting cooperation and coordination with other public entities and the private sector in the financing and delivery of services
- **H.** Ensuring compliance with all applicable federal and state laws

### **II. Approach to Debt Management**

The City is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration in a manner that protects the public interest. The City intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the City's annual operations budget.

In managing its debt, the City's greatest priorities are to:

- Achieve the lowest cost of capital
- Ensure high credit quality
- Assure access to credit markets, and
- Preserve financial flexibility
- A. Relationship of Debt to Capital Plan and Budget. The City is committed to long-term capital planning. The City intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the City's capital budget and capital plan (the "Capital Plan"). The City will integrate its debt issuances with the goals of its Capital Plan by timing the issuance of debt to ensure that projects are available when needed in furtherance of the City's public purposes. The City shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.
- **B.** Capital Plan Integration. A sound debt management program begins with a well-devised capital plan. Therefore, a multi-year capital plan, which integrates pay-as-you-go projects and the projects to be financed, is critical. The multi-year Capital Plan shall be for a minimum of a 5-year period and shall be updated to coincide with the budgeting cycle. In addition to capital project costs, the Capital Plan shall include the following elements:

- 1. Qualified capital projects
- 2. Description of all sources of funds
- **3.** Availability of current revenues (non-debt sources) which are reflected in the City's multi-year forecast
- **4.** Timing of capital projects
- **5.** A financing plan or methodology and debt service requirements
- C. Review of Capital Plan. It is anticipated that the Capital Plan will be modified from time to time. Modifications to the Capital Plan shall be accompanied by a report from the City's Director of Finance that discusses the impact of the proposed borrowing on the Capital Plan. The Capital Plan is reviewed and presented to the City Council to coincide with the budget cycle.
- **D.** Qualified Capital Projects. Generally, the City will not issue bonds for capital improvements with a cost less than \$250,000. The City shall not construct or acquire a public facility if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility throughout its life.
- E. Cash Financing of Capital Outlays. To demonstrate the City's commitment to a continued capital program, ensure careful consideration of capital expenditure levels, and enhance the City's overall credit worthiness, the City shall seek to fund at least between two and five percent of the overall capital program from current resources, depending upon the specific projects and annual budgetary constraints.
- **F.** Authorization for Issuance. Debt issuance for capital projects shall not be considered unless such issuance has been incorporated into the Capital Plan adopted by City Council.
- **G. Affordability Targets.** The ratios, standards, and limits identified below are primarily intended to restrict the use of debt financing in order to facilitate long-term access to capital while ensuring that financial leveraging decisions do not negatively impact the City's annual operations.
  - 1. Debt Capacity The City's approach to its financings is to ensure continued market access at the lowest cost of borrowing. As such, the Debt Policy suggests affordability or capacity targets which are established by the rating agencies (Moody's Investor Service, Standard & Poor's, and Fitch). Debt capacity is defined as debt service payments as a percentage of operating expenditures and debt service payments. The debt capacity ratio will be calculated each year. Below are the debt capacity ranges:

Low debt capacity
Moderate debt capacity
High debt capacity
>15%

A separate Debt Affordability Study will be presented when new debt is being considered.

A presentation of the City's debt capacity shall be made to the City Council with the proposed approval of any debt, lease financing or other instruments of installment repayments with maturities longer than three years.

- 2. Self-supporting Debt In some cases, the City will issue debt for which there is an identified repayment source. For debt to be characterized as selfsupporting, the repayment source must support the issue through its maturity. Bond issues where interest has been capitalized are not considered to be self-supporting.
- **3. Overlapping Debt -** (including debt from all other jurisdictions, which tax City taxpayers) will be taken into consideration in planning debt issuance.
- H. Credit Quality. All City debt management activities will be conducted to receive the highest credit ratings possible for each issue, consistent with the City's financing objectives, and to maintain the current credit ratings assigned to the City's debt by the major credit rating agencies.

### **III.** Debt Administration

This Policy will govern the issuance and management of debt issued by the City. This Policy will be reviewed by the Finance Department on an annual basis and reviewed by the Finance and Audit Standing Committee every two years.. Any changes to the Policy will be approved by the City Council. The City Council is responsible for overall policy direction of this Policy, as well as the authorization of each debt financing. The City Manager and Director of Finance will be responsible for implementation of the Policy.

A. Debt Administration Activities. The Finance Department is responsible for the City's debt administration activities including investment of bond proceeds, monitoring compliance with bond covenants, implementing internal control procedures to ensure the use of proceeds of bonds or other debt will be directed to the intended use, monitoring use of facilities financed with tax-exempt debt, continuing disclosure, monitoring arbitrage compliance for tax-exempt debt, and ongoing interactions with credit rating agencies. Departments implementing debt-financed capital programs will work in partnership with the Finance Department to provide information and otherwise facilitate the issuance and administration of debt.

- B. Internal Controls. The Finance Director will regularly review internal control procedures to ensure that the proceeds of any debt issuance are directed to the intended use. Such procedures will assist the City in maintaining the effectiveness and efficiency of debt administration activities, properly expending funds, reliably reporting debt incurred by the City and the use of the proceeds, complying with all laws and regulations, preventing fraud, and avoiding conflict of interest. The Finance Director or designee will:
  - Monitor the use of debt proceeds and the use of debt-financed assets (e.g., facilities, furnishings or equipment) throughout the term of the debt to ensure compliance
  - Maintain all relevant documents and records in connection with each debt issuance to document compliance
  - Employ appropriate internal controls and redundancy of review to ensure all approved contracts and expenditures are consistent with the terms of the bond sale
  - Ensure that all bond proceeds and investments are tracked in a manner which facilitates timely and accurate calculations
  - Monitor funds and accounts of trustee and review statements and records for bond expenditures
  - Confirm compliance with tax certificate covenants for debt
  - Consult with bond counsel and other professional expert advisers to assist the City in its debt issuance and debt administrative processes as needed
- C. **Compliance.** When issuing debt, the City will comply with all applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds. The City will periodically review the requirements of and will remain in compliance with the following:
  - Federal securities law, including any continuing disclosure undertakings entered into by the City in accordance with Securities and Exchange Commission Rule 15c2-12
  - Any federal tax compliance requirements, including, without limitation, arbitrage and rebate compliance
  - Regulations set forth in Government Code Section 8855; the City will comply with all annual reporting requirements to the California Debt and Investment Advisory Commission (CDIAC) and related regulations
  - The City's investment policies as they relate to the use and investment of bond proceeds

# IV. Standards for Use of Debt Financing

The City's debt management program will promote the use of debt only in those cases where public policy, equity, and economic efficiency favor debt over cash (pay-as-you-go) financing. Whenever possible, the debt shall be self-supporting.

- A. Long-Term Capital Projects. Debt will be used primarily to finance long-term capital projects paying for the facilities or equipment over some or all of their useful life and concurrent with the stream of benefits from these facilities. The City will consider the debt capacity in determining the use of debt financing.
- **B.** Special Circumstances for Non-Capital-Project Debt Issuance. Debt may be used in special circumstances for projects other than long-term capital projects such as pension obligations, only after careful policy evaluation by the City.
- C. Debt Financing Mechanisms. The City will evaluate the use of all financial alternatives available, including, but not limited to: long-term debt, pay-as-you-go, joint financing, reserve fund releases, lease-purchase, authority sponsored debt, special districts, community facility districts, special assessments, Mello Roos bonds, state and federal aid, certificates of participation, tax increment, private placement, master lease programs, and interfund borrowing. The City will utilize the most cost advantageous financing alternative available while limiting the General Fund's risk exposure.
- D. Record-Keeping. All debt related records shall be maintained with the Finance Department and City Clerk. At a minimum, this repository will include all official statements, bid documents, ordinances, indentures, trustee reports, leases, etc., for all City debt. To the extent that official transcripts incorporate these documents, possession of a transcript will suffice (transcripts may be in hard copy or stored on CD-ROM). The Treasury Division will maintain all available documentation for outstanding debt and will develop a standard procedure for archiving transcripts for any new debt.
- E. Rebate Policy and System. The City will accurately account for all interest earnings in debt-related funds. These records will be designed to ensure that the City is in compliance with all debt covenants, and with State and Federal laws. The City will maximize the interest earnings on all funds within the investment parameters set forth in each respective indenture. The City will calculate and report interest earnings that relate to Internal Revenue Code rebate, yield limits, and arbitrage.

# V. Financing Criteria

The Finance Director and/or designated staff will investigate all possible project financing alternatives including, but not limited to, bonds, loans, state bond pools, and grants. The City has also implemented an impact fee program whereby new development pays its fair share for the increased capital and operating costs that result from new construction. Although impact fee payments may be restricted to specific projects or types of projects, the use of these payments can be an important source of financing for certain capital projects.

- **A.** Types of Debt. When the City determines that the use of debt is appropriate, the following criteria will be utilized to evaluate the type of debt to be issued.
  - 1. **Cash Funding.** The City funds a significant portion of capital improvements on a "pay-as-you-go" basis. As part of a "pay as you go" strategy, the City will first look for grant funding for capital projects.
  - 2. Interfund Borrowing. The City may borrow internally from other funds with surplus cash in lieu of incurring third-party debt. Purposes that could warrant the use of this type of borrowing include short-term cash flow imbalances, interim financing pending the issuance of debt, or long-term financing in lieu of debt. The City funds from which the money is borrowed shall be repaid with interest based upon the earning rate of the City's investment pool Local Agency Investment Fund (LAIF). The Finance Director shall also exercise due diligence to ensure that it is financially prudent for the fund making the loan. The purpose of interfund borrowing is to finance high priority needs and to reduce costs of interest, debt issuance, and/or administration. Interfund loans will be evaluated on a case by case basis. Any borrowing between two City funds will require a repayment schedule approved by City Council.
  - 3. Long-Term Debt. The City may issue long-term debt (e.g., general obligation bonds, revenue bonds, tax increment bonds, lease obligations, or variable rate bonds) when required capital improvements cannot be financed from current revenues. The proceeds derived from long-term borrowing will not be used to finance current operations or normal maintenance. Long-term debt will be structured such that the obligations do not exceed the expected useful life of the respective projects.

The City shall not use any debt, lease financing or other instruments of installment repayments with terms longer than two years to finance the operating costs. Exceptions to the policy may be made on a case-by-case basis by City Council approval.

4. Short-Term Debt. Short-term borrowing may be utilized for the temporary funding of operational cash flow deficits or anticipated revenues (defined as an assured source with the anticipated amount based on conservative estimates). The City will determine and utilize the least costly method for short-term borrowing. The City may issue short-term debt when there is a defined repayment source or amortization of principal, subject to the following policies:

- a) Bond Anticipation Notes (BANs) may be issued instead of capitalizing interest to reduce the debt service during the construction period of a project or facility. The BANs shall mature not more than 3 years from the date of issuance. BANs shall mature within 6 months after substantial completion of the financed facility.
- b) Tax and Revenue Anticipation Notes (TRANs) shall be issued only to meet projected cash flow needs consistent with a finding by bond counsel that the sizing of the issue fully conforms to Federal IRS requirements and limitations.
- c) Bank Loans/Lines of Credit shall be considered as an alternative to other short-term borrowing options. The lines of credit shall be structured to limit concerns as to the Internal Revenue Code.
- d) Other Short-Term Debt, including commercial paper notes, may be used.
- 5. Lease-Purchase Debt. Lease-purchase debt, including certificates of participation, shall be considered as an alternative to long-term vendor leases. Such debt shall be subject to annual appropriation. In order to reduce the cost of lease borrowing and to improve control over leases, the City may adopt a master lease program.
- 6. Variable Rate Debt. To maintain a predictable debt service burden, the City may give preference to debt that carries a fixed interest rate. Variable rate debt, which is synthetically fixed, shall be considered fixed rate debt through the maturity of the swap. The City, however, may consider variable rate debt in certain instances, such as:
  - a) *High Interest Rate Environment*. Current interest rates are above historic average trends.
  - b) Variable Revenue Stream. The revenue stream for repayment is variable, and is anticipated to move in the same direction as marketgenerated variable interest rates, or the dedication of revenues allows capacity for variability.
  - c) Adequate Safeguards Against Risk. Financing structure and budgetary safeguards are in place to prevent adverse impacts from interest rate shifts; such structures could include, but are not limited to, interest rate swaps, interest rate caps and the matching of assets and liabilities.
  - d) Finance Analysis. The Finance Director will provide to the Finance Committee an analysis evaluating and quantifying the risks and returns

involved in the variable rate financing and recommending variable rate as the lowest cost option.

- e) As a Component to Synthetic Fixed Rate Debt. Variable rate bonds may be used in conjunction with a financial strategy, which results in synthetic fixed rate debt. Prior to using synthetic fixed rate debt, the City shall certify that the interest rate cost is lower than traditional fixed rate debt.
- f) Variable Rate Debt Capacity. Consistent with rating agency guidelines, the percentage of variable rate debt outstanding (not including debt which has been converted to synthetic fixed rate debt) shall not exceed 20% of the City's total outstanding debt.

### VI. Terms and Conditions of Bonds

The City shall establish all terms and conditions relating to the issuance of bonds, and will control, manage, and invest all bond proceeds. Unless otherwise authorized by the City, the following shall serve as bond requirements:

- **A. Term.** All capital improvements financed through the issuance of debt will be financed for a period not to exceed the useful life of the improvements, but in no event greater than thirty-five years.
- B. Capitalized Interest. Certain types of financings such as certificates of participation and lease-secured financings will require the use of capitalized interest from the issuance date until the City has beneficial use and occupancy of the financed project. Interest shall not be funded (capitalized) beyond a period of three years, or a shorter period if further restricted by statute. The City may require that capitalized interest on the initial series of bonds be funded from the proceeds of the bonds. Interest earnings may, at the City's discretion, be applied to extend the term of capitalized interest but in no event beyond the term statutorily authorized.
- **C. Debt Service Structure.** Debt issuance shall be planned to achieve relatively rapid repayment of debt while still matching debt service to the useful life of facilities. The City shall avoid the use of bullet or balloon maturities except in those instances where these maturities serve to levelize existing debt service.
- **D.** Call Provisions. In general, the City's securities will include a call feature, which is no later than 10 years from the date of delivery of the bonds. The City will avoid the sale of non-callable bonds absent careful evaluation by the City of the value of the call option.

- **E.** Original Issue Discount. An original issue discount will be permitted only if the City determines that such discount results in a lower true interest cost on the bonds and that the use of an original issue discount will not adversely affect the project identified by the bond documents.
- **F. Deep Discount Bonds.** Deep discount bonds may provide a lower cost of borrowing in certain markets. The City will carefully consider their value and effect on any future refinancings as a result of the lower-than-market coupon.
- G. Derivative Structures. The City will consider the use of derivative structures as a hedge against future interest rate risk when appropriate. The City will avoid the use of derivative structures for speculative purposes. The City will consider the use of derivative structures when it is able to gain a comparative borrowing advantage of 10 or more basis points, and is able to reasonably quantify and understand potential risks.

The City shall not use derivative structures for the sole purpose of generating operating or capital proceeds, without a determination that such structure will accrue interest rate and borrowing costs benefits for the City.

H. Multiple Series. In instances where multiple series of bonds are to be issued, the City shall make a final determination as to which facilities are of the highest priority and those facilities which will be financed first, pursuant to funding availability and the proposed timing of facilities development, and which will generally be subject to the earliest or most senior lien.

### VII. Credit Enhancements

The City will consider the use of credit enhancement on a case-by-case basis, evaluating the economic benefit versus cost for each case. Only when a clearly demonstrable savings can be shown shall enhancement be considered. The City will consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancement.

- A. Bond Insurance. The City shall have the authority to purchase bond insurance when such purchase is deemed prudent and advantageous. The predominant determination shall be based on such insurance being less costly than the present value of the difference in the interest on insured bonds versus uninsured bonds.
  - 1. Provider Selection. The Director of the Finance or his/her designee will solicit quotes for bond insurance from interested providers, or in the case of a competitive sale submit an application for pre-qualification on insurance. In a negotiated sale, the Director or his/her designee shall have the authority to select a provider whose bid is most cost effective and whose terms and conditions governing the guarantee are satisfactory to the City. The winning

bidder in a competitive sale will determine whether it chooses to purchase bond insurance for the issue.

**B.** Debt Service Reserves. When required, a reserve fund shall be funded from the proceeds of each series of bonds, subject to federal tax regulations and in accordance with the requirements of credit enhancement providers and/or rating agencies.

The City may purchase reserve equivalents (i.e., the use of a reserve fund surety) when such purchase is deemed prudent and advantageous. Such equivalents shall be evaluated in comparison to cash funding of reserves on a net present value basis.

- C. Letters of Credit. The City may enter into a letter-of-credit ("LOC") agreement when such an agreement is deemed prudent and advantageous. The Director of the Finance or his/her designee shall prepare (or cause to be prepared) and distribute to qualified financial institutions as described in paragraph 2 below, a request for qualifications which includes terms and conditions that are acceptable to the City.
  - Provider Selection. Only those financial institutions with long-term ratings greater than or equal to that of the City, and short-term ratings of VMIG 1/A-1 F1, by Moody's Investors Service, Standard & Poor's and Fitch Inc., respectively, may be solicited.
  - **2. Selection Criteria.** The selection of LOC providers will be based on responses to a City-issued request for qualifications; criteria will include, but not be limited to, the following:
    - a) Ratings at least equal to or better than the City's
    - **b)** Evidence of ratings (including "Outlook")
    - c) Trading value relative to other financial institutions
    - **d)** Terms and conditions acceptable to the City; the City may provide a term sheet along with the request for qualifications to which the financial institution may make modifications
    - e) Representative list of clients for whom the bank has provided liquidity facilities
    - f) Fees, specifically, cost of LOC, draws, financial institution counsel and other administrative charges

### VIII. Refinancing Outstanding Debt

The Finance Director shall have the responsibility to analyze outstanding bond issues for refunding opportunities that may be presented by underwriting and/or financial advisory firms. The Finance Director will consider the following issues when analyzing possible refunding opportunities:

- A. Debt Service Savings. The City establishes a minimum savings threshold goal of three percent of the refunded bond principal amount or at least \$200,000 in present value savings (including foregone interest earnings) unless there are legal reasons for defeasance. The present value savings will be net of all costs related to the refinancing. The decision to take savings on an upfront or deferred basis must be explicitly approved by the City Manager or the Director of the Finance.
- **B.** Restructuring. The City will refund debt when in its best interest to do so. Refundings will include restructuring to meet unanticipated revenue expectations, terminate swaps, achieve cost savings, mitigate irregular debt service payments, release reserve funds, or remove unduly restrictive bond covenants.
- C. Term of Refunding Issues. The City may refund bonds within the term of the originally issued debt. However, the City may consider maturity extension, when necessary to achieve a desired outcome, provided that such extension is legally permissible. The City may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financed facility and the concept of inter-generational equity should guide this decision.
- D. Escrow Structuring. The City shall utilize the least costly securities available in structuring refunding escrows. The City will examine the viability of an economic versus legal defeasance on a net present value basis. A certificate will be required from a third party agent who is not a broker-dealer, stating that the securities were procured through an arms-length, competitive bid process (in the case of open market securities), that such securities were more cost effective than State and Local Government Obligations (SLGS), and that the price paid for the securities was reasonable within Federal guidelines. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the City from its own account.
- **E. Arbitrage.** The City shall take all necessary steps to optimize escrows and to avoid negative arbitrage in its refundings. Any resulting positive arbitrage will be rebated as necessary according to Federal guidelines.

### IX. Methods of Issuance

The City will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation. General Obligation Bonds and Tax and Revenue Anticipation Notes will be issued on a competitive basis.

- **A. Competitive Sale.** In a competitive sale, the City's bonds shall be awarded to the bidder providing the lowest true interest cost as long as the bid adheres to the requirements set forth in the official notice of sale.
- **B.** Negotiated Sale. The City recognizes that some securities are best sold through negotiation. In its consideration of a negotiated sale, the City shall assess the following circumstances:
  - 1. Bonds issued as variable rate demand obligations
  - 2. A complex structure which may require a strong pre-marketing effort
  - 3. Size of the issue which may limit the number of potential bidders
  - **4.** Market volatility is such that the City would be better served by flexibility in timing its sale in changing interest rate environments
- **C. Private Placement.** From time to time the City may elect to privately place its debt. Such placement shall only be considered if this method is demonstrated to result in a cost savings to the City relative to other methods of debt issuance.
- **D. Issuance Method Analysis.** The City shall evaluate each method of issuance on a net present value basis.
- **E.** Feasibility Analysis. Issuance of self-supporting revenue bonds will be accompanied by a finding that demonstrates the projected revenue stream's ability to meet future debt service payments.

### X. Underwriter Selection

Senior Manager Selection: The Director of the Finance and/or his/her designee shall recommend to the City Manager the selection of a senior manager for a proposed negotiated sale. Request for Proposals (RFP) or Request of Qualifications (RFQ) will be used to determine the selection and appointment of the senior managers and co-managers on the debt issuances.

**A. General.** The criteria for selection as reflected in the RFP or RFQ shall include but not be limited to the following:

- 1. The firm's ability and experience in managing complex transactions
- 2. Prior knowledge and experience with the City
- 3. The firm's willingness to risk capital and demonstration of such risk
- 4. The firm's ability to sell bonds
- 5. Quality and experience of personnel assigned to the City's engagement
- 6. Financing plan presented
- **B.** Co-Manager Selection. Co-managers will be selected on the same basis as the senior manager. In addition to their qualifications, co-managers appointed to specific transactions will be a function of transaction size and the necessity to ensure maximum distribution of the City's bonds.
- **C. Selling Groups.** The City may establish selling groups in certain transactions. To the extent that selling groups are used, the Director of Finance at his or her discretion, may make appointments to selling groups from within the pool of underwriters or from outside the pool, as the transaction dictates.
- **D.** Underwriter's Counsel. In any negotiated sale of City debt in which legal counsel is required to represent the underwriter, the appointment will be made by the lead underwriter.

#### E. Underwriter's Discount.

- a) The Director of the Finance and/or his/her designee will evaluate the proposed underwriter's discount against comparable issues in the market. If there are multiple underwriters in the transaction, the Director will determine the allocation of fees with respect to the management fee. The determination will be based upon participation in the structuring phase of the transaction.
- b) All fees and allocation of the management fee will be determined prior to the sale date; a cap on management fee, expenses and underwriter's counsel will be established and communicated to all parties. The senior manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated.
- **F.** Evaluation of Financing Team Performance. The City will evaluate each bond sale after its completion to assess the following: costs of issuance including underwriters' compensation, pricing of the bonds in terms of the overall interest cost and on a maturity-by-maturity basis, and the distribution of bonds and sales credits.

- **G.** Syndicate Policies. For each negotiated transaction, syndicate policies will be prepared that will describe the designation policies governing the upcoming sale.
- H. Designation Policies. To encourage the pre-marketing efforts of each member of the underwriting team, orders for the City's bonds will be net designated, unless otherwise expressly stated. The City shall require the senior manager to:
  - 1. Equitably allocate bonds to other managers and the selling group
  - 2. Comply with MSRB regulations governing the priority of orders and allocations
  - 3. Within 10 working days after the sale date, submit to the Director of Finance a detail of orders, allocations and other relevant information pertaining to the City's sale

## XI. Market Relationships

- A. Rating Agencies and Investors. The City Manager and Director of the Finance shall be responsible for maintaining the City's relationships with Moody's Investors Service, Standard & Poor's and Fitch Inc. The City may, from time to time, choose to deal with only one or two of these agencies as circumstances dictate. In addition to general communication, the City Manager and the Director of Finance shall meet with or offer conference calls with agency analysts in connection with the planned sale.
- **B.** City Council Communication. The City Manager shall report to the City Council feedback from rating agencies and/or investors regarding the City's financial strengths and weaknesses and recommendations for addressing any weaknesses.
- C. Continuing Disclosure. The City shall remain in compliance with Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders within 270 days of the close of the fiscal year. The inability to make timely filings must be disclosed and would be a negative reflection on the City. While also relying on timely audit and preparation of the City's annual report, the Director of Finance will ensure the City's timely filing with each Nationally Recognized Municipal Securities Information Repository.

The City shall ensure compliance with Government Code Section 8855 including notification to the CDIAC of proposed debt. At least 30 days prior to the sale of any debt issue, the City shall submit a report of the proposed issuance to the CDIAC by any method approved by CDIAC. Such report shall include a self-certification that the City has adopted a policy concerning the use of debt that complies with law and that the contemplated debt issuance is consistent with that policy. The City shall submit a report of final sale to CDIAC by any method

approved by CDIAC no later than 21 days after the sale of the debt. The report shall include the information required by CDIAC.

The City shall submit an annual report to CDIAC for any issuance of debt for which it has submitted a report of final sale on or after January 21, 2017. On or before January 31 of each year, the City shall submit a report to the CDIAC regarding the debt authorized, the debt outstanding, and the use of proceeds of the issued debt for the period from July 1 to June 30. The annual report shall comply with the requirements of Government Code Section 8855 and related regulations.

- D. Rebate Reporting. The use of bond proceeds and their investments must be monitored to ensure compliance with arbitrage restrictions. Existing regulations require that issuers calculate annual rebates, if any, related to each bond issue, with rebate, if due, paid every five years. Therefore, the Director of Finance shall ensure that proceeds and investments are tracked in a manner which facilitates accurate calculation, that calculations are completed, and rebates, if any, are made in a timely manner.
- E. Other Jurisdictions. From time to time, the City will issue bonds on behalf of other public or private entities ("conduit" issues). While the City will make every effort to facilitate the desires of these entities, the Director of the Finance will ensure that the highest quality financings are done and that the City is insulated from all risks. The City shall require that all conduit financings achieve a rating at least equal to the City's ratings or that credit enhancement is obtained.
- **XII. Fees.** The City will charge an administrative fee equal to direct costs plus indirect costs as calculated by the City's OMB A87 model to reimburse its administrative costs incurred in debt issuance on behalf of other governmental entities.

## XIII. Consultants

The City shall select its primary consultant(s) by competitive process through a Request for Proposals (RFP).

- **A. Selection of Financing Team Members.** The City Manager and/or the Director of Finance will make recommendations for financial advisors, underwriters, and bond counsel. Final approval will be provided by the City Council.
- **B. Financial Advisor.** A pool of financial advisors will be created to assist the City in its debt issuance and debt administration processes. Selection of the City's financial advisor(s) shall be based on, but not limited to, the following criteria:

- 1. Experience in providing consulting services to complex issuers
- 2. Knowledge and experience in structuring and analyzing complex issues
- **3.** Experience and reputation of assigned personnel
- **4.** Fees and expenses
- **C. Financial Advisory Services.** Financial advisory services provided to the City shall include, but shall not be limited to the following:
  - 1. Evaluation of risks and opportunities associated with debt issuance
  - 2. Monitoring marketing opportunities
  - 3. Evaluation of proposals submitted to the City by investment banking firms
  - 4. Structuring and pricing
  - **5.** Preparation of request for proposals for other financial services (trustee and paying agent services, printing, credit facilities, remarketing agent services, etc.)
  - **6.** 6. Advice, assistance and preparation for presentations with rating agencies and investors
- **D.** Conflicts of Interest. The City also expects that its financial advisor will provide the City with objective advice and analysis, maintain the confidentiality of City financial plans, and be free from any conflicts of interest.
- E. Bond Counsel. City debt will include a written opinion by legal counsel affirming that the City is authorized to issue the proposed debt, that the City has met all constitution and statutory requirements necessary for issuance, and a determination of the proposed debt's federal income tax status. The approving opinion and other documents relating to the issuance of debt will be prepared by counsel with extensive experience in public finance and tax issues. Compensation will be based on a fixed fee schedule and will vary based on the complexity of the transaction.
- **F.** Disclosure by Financing Team Members. All financing team members will be required to provide full and complete disclosure, relative to agreements with other financing team members and outside parties. The extent of disclosure may vary depending on the nature of the transaction. However, in general terms, no agreements shall be permitted which could compromise the firm's ability to

provide independent advice which is solely in the City's best interests or which could reasonably be perceived as a conflict of interest.

- **G. Financing Team Selection Process.** The City shall conduct a request for qualifications from all red-book firms and other potential candidates of qualified underwriters, financial advisors, bond counsel and other consultants for each of the following areas:
  - General Obligation Bonds, assessment bonds and other bond issuances based on voter-approval revenues;
  - Redevelopment tax-increment bonds (including low and moderate income housing);
  - Revenue bonds, lease financing and other obligations on existing City revenues.

Selected candidates may at the City's discretion provide financial services for a period not to exceed three years.

# **Glossary**

**Arbitrage.** The difference between the interest paid on the tax-exempt securities and the interest earned by investing the security proceeds in higher-yielding taxable securities. IRS regulations govern arbitrage on the proceeds from issuance of municipal securities.

**Balloon Maturity.** A later maturity within an issue of bonds which contains a disproportionately large percentage of the principal amount of the original issue.

**Bond Anticipation Notes (BANs).** Notes issued by the government unit, usually for capital projects, which are paid from the proceeds of the issuance of long term bonds.

**Bullet Maturity.** A maturity for which there are no sinking fund payments prior to the stated maturity date.

**Call Provisions.** The terms of the bond contract giving the issuer the right to redeem all or a portion of an outstanding issue of bonds prior to their stated dates of maturity at a specific price, usually at or above par.

Capitalized Interest. A portion of the proceeds of an issue which is set aside to pay interest on the securities for a specific period of time. Interest is commonly

capitalized for the construction period of the project.

**Certificates of Participation (COP).** A bond from an issue, which is secured by lease payments made by the party leasing the facilities, financed by the issue. Typically certificates of participation ("COPs") are used to finance construction of facilities (i.e., schools of office buildings) used by a state or municipality, which leases the facilities from a financing authority. Often the leasing municipality is legally obligated to appropriate moneys from its general tax revenues to make lease payments.

**Commercial Paper.** Very short-term, unsecured promissory notes issued in either registered or bearer form, and usually backed by a line of credit with a bank.

**Competitive Sale.** A sale of securities by an issuer in which underwriters or syndicates of underwriters submit sealed bids to purchase the securities in contrast to a negotiated sale.

**Continuing Disclosure.** The principle that accurate and complete information material to the transaction which potential investors would be likely to consider material in making investment decisions with respect to the securities be made available on an ongoing basis.

**Credit Enhancement.** Credit support purchased by the issuer to raise the credit rating of the issue. The most common credit enhancements consist of bond insurance, direct or standby letters of credit, and lines of credit.

**Debt Service Reserve Fund.** The fund in which moneys are placed which may be used to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements.

**Deep Discount Bonds.** Bonds which are priced for sale at a substantial discount from their face or par value.

**Derivatives.** A financial product whose value is derived from some underlying asset value.

**Designation Policies.** Outline of how an investor's order is filled when a maturity is oversubscribed when there is an underwriting syndicate. The senior managing underwriter and issuer decide how the bonds will be allocated among the syndicate. There are three primary classifications of orders, which form the designation policy.

The highest priority is given to Group Net orders; the next priority is given to Net Designated orders and Member orders are given the lowest priority.

Escrow. A fund established to hold moneys pledged and to be used to pay debt

service on an outstanding issue.

**Expenses.** Compensates senior managers for out-of-pocket expenses including: underwriters' counsel, DTC charges, travel, syndicate expenses, dealer fees, overtime expenses, communication expenses, computer time and postage.

**Lease-Purchase.** A financing lease which may be sold publicly to finance capital equipment, real property acquisition or construction. The lease may be resold as certificates of participation or lease revenue bonds.

**Letters of Credit.** A bank credit facility wherein the bank agrees to lend a specified amount of funds for a limited term.

**Management Fee.** The fixed percentage of the gross spread which is paid to the managing underwriter for the structuring phase of a transaction.

**Members.** Underwriters in a syndicate other than the senior underwriter.

**Moody's Median.** Key financial, debt, economic and tax base statistics with median values for each statistic presented. Moody's uses audits for both rated and unrated cities to ensure that the medians presented are representative of all cities.

**Negotiated Sale.** A method of sale in which the issuer chooses one underwriter to negotiate terms pursuant to which such underwriter will purchase and market the bonds.

**Original Issue Discount.** The amount by which the original par amount of an issue exceeds its public offering price at the time it is originally offered to an investor.

**Overlapping Debt.** That portion of the debt of other governmental units for which residents of a particular municipality are responsible.

**Pay-As-You-Go.** An issuer elects to finance a project with existing cash flow as opposed to issuing debt obligations.

**Present Value.** The current value of a future cash flow.

**Private Placement.** The original placement of an issue with one or more investors as opposed to being publicly offered or sold.

**Rebate.** A requirement imposed by Tax Reform Act of 1986 whereby the issuer of the bonds must pay the IRS an amount equal to its profit earned from investment of bond proceeds at a yield above the bond yield calculated pursuant to the IRS code together with all income earned on the accumulated profit pending payment.

**Selling Groups.** The group of securities dealers who participate in an offering not as underwriters but rather who receive securities less the selling concession from the managing underwriter for distribution at the public offering price.

**Special Assessments.** Fees imposed against properties, which have received a special benefit by the construction of public improvements such as water, sewer and irrigation.

**Syndicate Policies.** The contractual obligations placed on the underwriting group relating to distribution, price limitations and market transactions.

**Tax Increment.** A portion of property tax revenue received by a redevelopment agency, which is attributable to the increase in assessed valuation since adoption of the project area plan.

**Underwriter.** A dealer that purchases new issues of municipal securities from the Issuer and resells them to investors.

**Underwriter's Discount.** The difference between the price at which bonds are bought by the Underwriter from the Issuer and the price at which they are reoffered to investors.

**Variable Rate Debt.** An interest rate on a security, which changes at intervals according to an index or a formula or other standard of measurement, as stated in the bond contract.



# **Debt Management Policy**

Post-Issuance and Continuing Disclosure Procedures

(Last Updated March 2, 2020)



# **Post-Issuance and Continuing Disclosure Procedures**

# **PURPOSE**

The purpose of these Disclosure Procedures (hereinafter "Procedures") is to memorialize various procedures to be followed in connection with the public offering of obligations, including notes, bonds and certificates of participation, by the City of Goleta, the Successor Agency to the Redevelopment Agency for the City of Goleta, and other entities related to, or controlled by, the City (collectively referred to in these Procedures as the "City") so as to ensure that the City complies with all applicable disclosure obligations and requirements under the federal securities laws.

## **BACKGROUND**

The City from time to time causes bonds, notes or other obligations to be issued and certificates of participation to be executed and delivered (collectively, "Obligations") in order to finance or refinance capital improvements, other long-term programs and working capital needs. In offering Obligations to the public, and at other times when the City makes certain reports, the City must comply with the "anti-fraud rules" of federal securities laws. "Anti-fraud rules" refers to Section 17 of the Securities Act of 1933 and Section 10(b) of the Securities and Exchange Act of 1934, and regulations adopted by the Securities and Exchange Commission under those Acts, particularly "Rule 10b-5" under the 1934 Act.

The core requirement of these rules is that potential investors in Obligations must be provided with all "material" information relating to the offered Obligations. The information provided to investors must not contain any material misstatements, and the City must not omit material information which would be necessary to provide to investors a complete and transparent description of the Obligations and the City's financial condition. In the context of the sale of securities, a fact is considered to be "material" if there is a substantial likelihood that a reasonable investor would consider it to be important in determining whether or not to purchase the securities being offered.

When the City offers Obligations for sale to the public, the two central disclosure documents which are prepared are a preliminary official statement ("POS") and a final official statement ("OS", and collectively with the POS, the "Official Statement"). The Official Statement generally consists of (i) a section describing the specifics of the

Obligations (including maturity dates, interest rates, redemption provisions, the specific type of financing, the security and source of repayment for the Obligations and other matters particular to the financing), (ii) a section which provides information on the City, including its financial condition (both historical and budgetary) as well as certain operating information (which may be ad valorem tax collections, the State funding process, enrollment, employee counts, material litigation and other post-employment benefit and pension plan descriptions, depending on the type of Obligations being issued) (the "City Section"), and (iii) various other appendices, including the City's audited financial report, form of the proposed legal opinion, and form of continuing disclosure undertaking. Investors use the Official Statement as one of their primary resources for making informed investment decisions regarding a purchase of the Obligations.

#### **DISCLOSURE PROCESS**

When the City determines to issue Obligations, the City Manager and/or Finance Director has a discussion with Bond Counsel, Disclosure Counsel, the lead underwriter and any City financial advisor to determine the type of Obligations to be sold and the information required to be gathered by the City for inclusion in the Official Statement. The Finance Director will involve other members of the City staff who are knowledgeable with City operations to assist in the review and updating of the City Section. The Finance Director then requests the relevant City employees to gather the information necessary for the preparation of the portions of the Official Statement (including particularly the City Section) for which they are responsible. Any major financial or operational changes since the date of the last issue of Obligations should be analyzed and included in the City Section if material. The Finance Director is responsible for reviewing and preparing or updating the portions of the City Section which are within his or her particular area of knowledge. Once the Official Statement has been substantially updated, the entire Official Statement is shared with the City Manager for review and input. Additionally, all participants in the disclosure process are separately responsible for reviewing the entire Official Statement.

Members of the financing team, including the Bond Counsel and Disclosure Counsel, assist staff in determining the materiality of any particular item, and in the development of specific language to be included in the City Section. Members of the financing team also assist the City in the development of a "big picture" overview of the City's financial condition, to be included in the City Section. This overview highlights the City's current financial condition and any developing trends in City budgets or operations, including potential areas of financial stress or concern. Bond Counsel and Disclosure Counsel have a confidential, attorney-client relationship with officials and staff of the City, so all matters may initially be shared confidentially before decisions are reached as to required disclosures.

The City Manager, Finance Director, or a member of the financing team at the direction of either of such officials, schedules one or more meetings or conference calls of the financing team (which includes City officials, Bond Counsel, Disclosure Counsel, the underwriter of the Obligations, any underwriter's counsel, and any City financial

advisor), and new drafts of the forepart of the Official Statement and the City Section are circulated and discussed. Such communications may occur via electronic means rather than by meetings or conference calls. During this part of the process, there is substantial contact among City staff and other members of the financing team to discuss issues which may arise, determine the materiality of particular items and ascertain the prominence in which the items should be disclosed.

Prior to distributing a POS to potential investors, there is typically a formal conference call which includes City officials involved in the preparation of the POS, members of the financing team, including Bond Counsel, Disclosure Counsel, the underwriter or underwriters and any underwriter's counsel, during which due diligence questions are asked regarding the Official Statement to allow the underwriter or underwriters to obtain information from the City's senior officials and to discharge their obligation under federal securities laws to determine that they may reasonably rely on the statements in the POS. This is referred to as a "due diligence" meeting.

A substantially final form of the POS is provided to the City Council in advance of approval to afford the City Council an opportunity to review the POS, ask questions and make comments. The substantially final form of the POS is approved by the City Council which generally authorizes certain senior staff to make additional corrections, changes and updates to the POS in consultation with the City's Bond Counsel and Disclosure Counsel.

At the time the POS is posted for review by potential investors, a senior City official executes a certificate deeming the POS complete (except for certain pricing terms) as required by Securities and Exchange Commission Rule 15c2-12.

Between the posting of the POS for review by potential investors and delivery of the final OS to the underwriter for redelivery to actual investors in the Obligations, any material changes and developments will be incorporated into the POS, including particularly the City Section, if required. If necessary to reflect developments following publication of the POS or OS, as applicable, supplements will be prepared and published if needed to ensure that the POS or OS, as applicable, does not contain any material misstatement of facts or omit to state a material fact.

In connection with the closing of the transaction, a senior City official executes a certificate stating that the OS (excluding certain limited portions), as of its date did not, and as of the date of closing does not, contain any untrue statement of material fact or omit to state any material fact necessary to make the statements contained in the OS in light of the circumstances under which they were made, not misleading.

#### **CITY SECTION**

The information contained in the City Section is developed by personnel under the direction of the Finance Director with the assistance of the financing team. In certain circumstances, additional officials will be involved, as necessary. The following principles govern the work of the respective staff members that contribute information to

## the City Section:

- City staff involved in the disclosure process is responsible for being familiar with the City's responsibilities under federal securities laws as described above.
- City staff involved in the disclosure process should err on the side of raising issues
  when preparing or reviewing information for disclosure. Officials and staff are
  encouraged to consult the City's Bond Counsel, Disclosure Counsel, other legal
  counsel retained by the City and other members of the financing team if there are
  questions regarding whether an issue is material or not.
- Care should be taken not to shortcut or eliminate any steps outlined in the Procedures on an ad hoc basis. However, the Procedures are not necessarily intended to be a rigid list of procedural requirements, but instead to provide guidelines for disclosure review. If warranted, based on experience during financings or because of additional SEC pronouncements or other reasons, the City should consider revisions to the Procedures.
- The process of updating the City Section from transaction to transaction should not be viewed as being limited to updating tables and numerical information. While it is not anticipated that there will be major changes in the form and content of the City Section at the time of each update, everyone involved in the process should consider the need for revisions in the form, content and tone of the sections for which they are responsible at the time of each update.
- The City must make sure to involve staff with sufficient seniority and knowledge to ensure that, collectively, they are in possession of all material information relating to the City, its operations and its finances.

#### **TRAINING**

Periodic training for the staff involved in the preparation of the Official Statement (including the City Section) is coordinated by the finance team and the City Manager. These training sessions are provided to assist staff members involved in identifying relevant disclosure information to be included in the City Section. The training sessions also provide an overview of federal laws relating to disclosure, situations in which disclosure rules apply, the purpose of the Official Statement and the City Section, a description of relevant SEC enforcement actions and a discussion of recent developments in the area of municipal disclosure. Attendees at the training sessions are provided the opportunity to ask questions of finance team members, including Bond Counsel and Disclosure Counsel, concerning disclosure obligations and are encouraged to contact members of the finance team at any time if they have questions.

#### CONTINUING DISCLOSURE REQUIREMENTS

In connection with the issuance of Obligations, the City has entered into a number of contractual agreements ("Continuing Disclosure Agreements") to provide

annual reports related to its financial condition (including its audited financial statements) as well as notice of certain events relating to the Obligations specified in the Continuing Disclosure Agreements. These Continuing Disclosure Agreements are entered into in order to allow the underwriters of the Obligations sold to the public to comply with SEC Rule 15c2-12. Each new offering of Obligations to the public will require an additional Continuing Disclosure Agreement. The City must comply with the specific requirements of each Continuing Disclosure Agreement.

Additionally, each Official Statement must contain disclosure as to whether, during the previous five years, the City has complied in all material respects with its Continuing Disclosure Agreements. If the City has not complied with its previous undertakings in all material respects within the last five years, then the Official Statement must describe the instances in which the City has not complied. Prior to finalizing a POS, the City staff should take steps to review the status of compliance and discuss with Disclosure Counsel, the underwriter and any underwriter's counsel what steps it has taken to review the City's compliance and whether any noncompliance has been noted. This review may be done by reviewing a report from a third-party consultant engaged by the City to assist it in complying with its continuing disclosure obligations or a report from the underwriter or a third party engaged by the underwriter. If noncompliance is found, steps should be taken to disclose in the POS the instances of material noncompliance within the last five years and cure the noncompliance before the issuance of the Obligations.

The City's Continuing Disclosure Agreements generally require that the annual report for a fiscal year be filed by the March 31 following the end of such fiscal year. Event notices are generally required to be filed within 10 business days of their Specific events which require event notices are set forth in each Continuing Disclosure Agreement. Particular care shall be paid to the timely filing of any changes in credit ratings on Obligations (including changes resulting from changes in the credit ratings of insurers of particular Obligations) and to timely filing of defeasance notices. Additionally, all Continuing Disclosure Agreements entered into after February 27, 2019 will include two new event notices related to financial obligations of the City in order to comply with amendments to Rule 15c2-12 which took effect on such date. These amendments define "financial obligation" as a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii); however, the term "financial obligation" does not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with Rule 15c2-12. compliance with these amendments the Finance Director will identify the City's financial obligations and provide any required event notice related to the City's financial obligations.

The Finance Director is the official responsible for ensuring compliance by the City with its Continuing Disclosure Agreements, and will assign trained City personnel to oversee the preparation of the annual reports and will determine whether to retain the services of one or more consultants to assist in the preparation of the annual reports

and event notices. The Finance Director will either assign trained City personnel to file the annual reports and event notices with the Electronic Municipal Market Access ("EMMA") system of the Municipal Securities Rulemaking Board (emma.msrb.org) or will engage the services of one or more dissemination agents to file the annual reports and material event notices required pursuant to the Continuing Disclosure Agreements. Third party dissemination agents shall be contractually obligated to provide written confirmation to the City of the date of filing of the annual reports with EMMA.