


<b>City of Monterey Park Administrative Policy</b>	Policy Number: 20-28
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	Revised Date:
<b>Subject:</b> DEBT ISSUANCE AND MANAGEMENT POLICY	Approved by:  Ron Bow, City Manager
	Page Number Page 1 of 19

**PURPOSE**

The purpose of this Debt Issuance and Management Policy (this “Policy”) is to establish guidelines and parameters for the effective governance, management and administration of debt and other financing obligations issued by the City of Monterey Park and its related entities.

“City” means the City of Monterey Park and any related entity; “debt” means, without limitation, bonds, notes, certificates of participation, financing leases or other financing obligations. The use of “debt” in this Policy is solely for convenience and may not be interpreted to characterize any such obligation as an indebtedness or debt within the meaning of any statutory or constitutional debt limitation where the substance and terms of the obligation fall within exceptions to such limitation. This Policy applies to all debt issued or sold to third party lenders or investors and does not pertain to City internal interfund borrowings or any employee benefit obligations.

**BACKGROUND**

The City is committed to fiscal sustainability by employing long-term financial planning efforts, maintaining appropriate reserves levels and employing prudent practices in governance, management, budget administration and financial reporting.

Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. A disciplined thoughtful approach to debt management includes policies that provide guidelines for the City to manage its collective debt program. An objective of this Policy, therefore, is to provide written guidelines and restrictions concerning the amount and type of debt and other financing obligations issued by the City and the ongoing management of its debt portfolio.

This Policy is intended to improve the quality of decisions, assist with the determination of the structure of debt issuance, identify policy goals and demonstrate a commitment to long-term financial planning, including a multi-year capital plan. Adherence to a Debt Issuance and Management Policy signals to rating agencies and the capital markets that a government is well managed and should meet its obligations in a timely manner.

## CONDITIONS AND PURPOSES OF DEBT ISSUANCE

### 1. Acceptable Conditions for the Use of Debt

The City believes that prudent amounts of debt can be an equitable and cost-effective means of financing infrastructure, and capital asset and project needs of the City. Debt will be considered to finance such projects if:

- a) The project is included in the City's capital improvement plan or has otherwise been coordinated with the City Council's planning goals and objectives.
- b) The project can be financed with debt not exceeding the term specified in Section E.1 of this Policy, to assure that long-term debt is not issued to finance projects with a short useful life.
- c) It is the most cost-effective funding means available to the City, taking into account cash flow needs and other funding alternatives.
- d) It is fiscally prudent and meets the guidelines of this Policy. Any consideration of debt financing must consider financial alternatives, including pay-as-you-go funding; proceeds derived from development or redevelopment of existing land and capital assets owned by the City; and use of existing or future cash reserves, or combinations thereof.

### 2. Acceptable Uses of Debt and Proceeds of Debt

The primary purpose of debt is to finance one of the following:

- a) The City will consider long-term financing for the acquisition, substantial refurbishment, replacement, or expansion of capital assets (including, without limitation, land improvements, infrastructure projects, and equipment) for the following purposes:
  - i. *Acquisition and or improvement of land, right-of-way or long-term easements.*
  - ii. *Acquisition of a capital asset with a useful life of three or more years.*
  - iii. *Construction or reconstruction of a facility.*
  - iv. *Although not the primary purpose of the financing effort, project reimbursables that include project planning design, engineering and other preconstruction efforts; project-associated furniture fixtures and equipment; capitalized interest (prefunded interest); original issue discount; underwriter's discount; and other costs of issuance.*
- b) Refunding, refinancing or restructuring debt (including, without limitation, the refinancing or advance funding of City pension obligations), subject to refunding objectives and parameters discussed in Section G.

### 3. Short-Term Debt

- a) In the event of temporary shortfalls in cash flow for City operation costs due to timing of receipt of revenues and the lack of cash on hand to cover a temporary deficit, the City may consider interim or cash flow financing, such as anticipation notes. In compliance with California law, any such notes must be payable either: (i) not later than the last day of the fiscal year in which it is issued; or (ii) during the fiscal year succeeding the fiscal year in which issued, but in no event later than 15 months after the date of issue, and only if such note is payable only from revenue received or accrued during the fiscal year in which it was issued.
- b) Short-term debt may also be used to finance short-lived capital projects, such as lease-purchase financing or equipment.
- c) Before the City issues any short-term debt, it must identify a reliable revenue source for repayment of the debt.

#### **4. Internal Control Procedures Concerning Use of Proceeds of Debt**

One of the City's priorities in the management of debt is to ensure that the proceeds of the debt will be directed to the intended use for which the debt has been issued. In furtherance of this priority, the following procedures apply:

- a) The Management Services Director must retain, for the applicable period specified in Section H.4. of this Policy, a copy of each annual report filed with the California Debt and Investment Advisory Commission ("CDIAC") pursuant to Government Code § 8855(k) concerning (1) debt authorized during the applicable reporting period (whether issued or not); (2) debt outstanding during the reporting period; and (3) the use during the reporting period of proceeds of issued debt.
- b) In connection with the preparation of each annual report to be filed with CDIAC pursuant to Government Code § 8855(k), the Management Services Director must keep a record of the original intended use for which the debt has been issued, and provide a written statement whether the proceeds spent during the applicable one-year reporting period for such annual report comport with the intended use (at the time of original issuance or as modified pursuant to the following sentence). If a change in intended use is authorized after the original issuance of the debt, the Management Services Department must provide a written statement when the change in use was authorized and whether the City Council, City Manager or another City official has authorized the change in intended use. The Management Services Director or designee must report apparent deviations from the intended use in debt proceeds to the City Manager for further discussion. Additionally, the City Attorney and City Council must be informed.
- c) If the debt is issued to finance a capital project and the project timeline or scope of project changed in a way that all or a portion of the debt proceeds cannot be expended on the original project, the Management Services Director must consult with the City Manager and City Attorney as to available alternatives for the expenditure of the remaining debt proceeds (including prepayment of the debt).

## TYPES OF FINANCING INSTRUMENTS; AFFORDABILITY AND PLANNING POLICIES

The City recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, risks and costs. All potential funding sources are reviewed by management within the context of this Policy and the overall portfolio to ensure that any financial product or structure is consistent with the City's objectives. Regardless of what financing structure(s) is utilized, due diligence review must be performed for each transaction, including the quantification of potential risks and benefits and analysis of the impact on City creditworthiness and debt affordability and capacity.

Before the City issues debt or assumes other financing obligations to finance a project, the City will carefully consider the overall long-term affordability of the proposed debt issuance. The City may not assume more debt or other financing obligations without conducting an objective analysis of the City's ability to assume and support additional debt service payments. The City will consider its long-term revenue and expenditure trends, the impact on operational flexibility and the overall debt burden on the taxpayers. The evaluation process must include a review of generally accepted measures of affordability and will strive to achieve and or maintain debt levels consistent with its current operating and capital needs.

- 1. General Fund-Supported Debt** – General Fund Supported Debt generally include Certificates of Participation (“COPs”) and Lease Revenue Bonds (“LRBs”) which are lease obligations that are secured by a lease-back arrangement between the City and another public entity. Typically, the City appropriates available General Fund moneys to pay the lease payments to the other public entity and, in turn, the public entity uses such lease payments received to pay debt service on the bonds or Certificates of Participation.

General Fund Supported Debt may also include bonds issued to refund obligations imposed by law, such as judgments (judgment obligation bonds (“JOBs”)) or unfunded accrued actuarial liabilities for pension plans (pension obligation bonds (“POBs”)).

These obligations do not constitute indebtedness under the state constitutional debt limitation and, therefore, are not subject to voter approval.

Without limiting the foregoing, the City may also enter into operating leases and lease purchase agreements on an as-needed basis without voter approval.

Payments to be made under valid leases are payable only in the year in which use and occupancy of the leased property is available, and lease payments may not be accelerated as a default remedy. Lease financing requires the fair market rental value of the leased property to be equal to or greater than the required debt service or lease payments. The lessee (the City) is obligated to include in its Annual Budget and appropriate the rental payments that are due and payable during each fiscal year the lessee has use of the leased property.

The City should strive to maintain its net General Fund-backed annual debt service at or less than 8% of available annually budgeted revenue. This ratio is defined as the City's annual debt service requirements on General Fund Supported Debt (including, but not limited to, COPs, LRBs, JOBs, and POBs) compared to total annual General Fund Revenues net of interfund transfers out.

- 2. Revenue Bonds** – Long-term obligations payable solely from specific special fund sources, in general, are not subject to a debt limitation. Examples of such long-term obligations include those

which are payable from a special fund consisting of restricted revenues or user fees (e.g., enterprise revenues) and revenues derived from the system of which the project being funded is a part.

In determining the affordability of proposed revenue bonds, the City will perform an analysis comparing projected annual net revenues (exclusive of depreciation which is a non-cash related expense) to estimated annual debt service. The City should strive to maintain an annual coverage ratio of 110% (or such higher coverage ratio included in the City's existing financing documents), using historical and/or projected net revenues to cover annual debt service for bonds. To the extent necessary, the City must undertake proceedings for a rate increase to cover both operations and debt service costs, and create debt service reserve funds to maintain the required coverage ratio.

3. **Special Districts Financing** – The City may undertake proceedings to form Community Facilities Districts pursuant to the Mello-Roos Community Facilities District Act of 1982 or assessment districts pursuant to the Improvement Act of 1911, the Municipal Improvement Act of 1913, or other applicable law. The City will consider requests for special district formation and debt issuance when such requests address a public need or provide a public benefit. Each application will be considered on a case by case basis, and the Management Services Director may not recommend a financing if it is determined that the financing could be detrimental to the debt position or the best interests of the City.
4. **General Obligation Bonds** – Notwithstanding their name, General Obligation Bonds are not general obligations of the City, but instead they are payable from and secured by a dedicated, voter-approved property tax override rate (*i.e.*, a property tax in excess of the 1% basic *ad valorem* property tax rate which has received the approving two-thirds vote of the City's electorate). While the dedicated revenue stream to repay the debt makes General Obligation Bonds an attractive option, additional considerations for this financing mechanism include the time and expense of an election, the possibility that the electorate will not approve the ballot measure, and the legal bonding capacity limit of the assessed value of all taxable property within the City.
5. **Tax Increment Financing** – Tax increment financing is a financing method whereby a portion of *ad valorem* property taxes (commonly called the “tax increment”) that are allocated to an entity, such as an enhanced infrastructure financing district (“EIFD”), a community revitalization and investment authority (“CRIA”) or an infrastructure and revitalization financing district (“IRFD”), and the entity is permitted to incur debt payable from and secured by the tax increment revenues. While tax increment debt for redevelopment agencies and Successor Agencies is entitled to the benefits of Article XVI, Section 16, of the California Constitution, no similar provision exists for EIFDs, CRIAs and IRFDs at the time of adoption of this Policy. Therefore, when considering EIFD, CRIA or IRFD financing or other types of tax increment financing which may be permitted by law in the future, debt limit concerns should be analyzed with respect to the proposed structure and taken into account in determining the practical viability of the proposed financing.
6. **Conduit Debt** – Conduit financing provides for the issuance of securities by a government agency to finance a project of a third party, such as a non-profit organization or other private entity. The City may sponsor conduit financings for those activities that have a general public purpose and are consistent with the City's overall service and policy objectives. Unless a compelling public policy rationale exists, such conduit financings will not in any way pledge the City's faith and credit.

## STRUCTURE OF DEBT

1. **Term of Debt** – To comply with Internal Revenue Service regulations for tax-exempt financing obligations, the weighted average maturity of the debt should not exceed 120% of the weighted average useful life of the facilities or projects to be financed, unless specific circumstances exist that would mitigate the extension of time to repay the debt and it would not cause the City to breach any covenants to maintain the tax-exempt status of such debt, if applicable.
2. **Rapidity of Debt Payment; Level Payment** – To the extent practical, bonds will be amortized on a level repayment basis, and revenue bonds will be amortized on a level repayment basis considering the forecasted available pledged revenues to achieve the lowest rates possible. Bond repayments should not increase on an annual basis in excess of 2% without a dedicated and supporting revenue funding stream.

Accelerated repayment schedules reduce debt burden faster and reduce total borrowing costs. The Management Services Director will amortize debt through the most financially advantageous debt structure and to the extent possible, match the City's projected cash flow to the anticipated debt service payments. "Backloading" of debt service will be considered only when one or more of the following occur:

- a) Natural disasters or extraordinary or unanticipated external factors make payments on the debt in early years prohibitive.
  - b) The benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present.
  - c) Such structuring is beneficial to the City's aggregate overall debt payment schedule or achieves measurable interest savings.
  - d) Such structuring will allow debt service to more closely match projected revenues, whether due to lower project revenues during the early years of the project's operation, inflation escalators in the enterprise user rates, or other quantifiable reasons.
3. **Serial Bonds, Term Bonds, and Capital Appreciation Bonds** – For each issuance, the City will select serial bonds or term bonds, or both. On the occasions where circumstances warrant, Capital Appreciation Bonds ("CABs") may be used. The decision to use term bonds, serial bonds, or CABs is driven based on market conditions. However, the use of CABs should be used as a last resort unless a compelling financing need is presented and acceptable rates and terms can be secured.
  4. **Reserve Funds** – To the extent that the use of available City moneys to fund a reserve fund provides an economic benefit that offsets the cost of financing the reserve fund from bond proceeds (as determined by the Management Services Director in consultation with the City's municipal advisor and, if applicable, the underwriter for the bonds), the City may use legally permitted moneys to fund a reserve fund (in cash or through the purchase of a debt service reserve surety bond or insurance policy) for the proposed bonds, up to the maximum amount permitted by applicable law or regulation. Typically, this amount is equal to the least of: (i) maximum annual debt service on the bonds, (ii) 10% of the principal amount of the bonds (or 10% of the sale proceeds of the bonds, within the meaning of Section 148 of the federal Internal Revenue Code), or (iii) 125% of average annual debt service on the bonds.

## USE OF ALTERNATIVE DEBT INSTRUMENTS

Alternative debt instruments and financing structures sometimes can provide a lower cost of borrowing in the short run, but may involve greater medium-term or long-term risk. Due diligence review must be performed for each transaction, including the quantification of potential risks and benefits, analysis of the impact on City creditworthiness and debt affordability and capacity, and an evaluation of the ability of the City to withstand the medium-term or long-term risk attendant to alternative debt instruments, including the feasibility of exit strategies.

### 1. Variable Rate Debt

Variable rate debt affords the City the potential to achieve a lower cost debt depending on market conditions. However, the City will seek to limit the use of variable-rate debt due to the potential risks of such instruments.

#### a) Purpose

The City may consider the use of variable rate debt for the purposes of:

- i. Reducing the costs of debt issues.
- ii. Increasing flexibility for accelerating principal repayment and amortization.
- iii. Enhancing the management of assets and liabilities (matching short-term “priced debt” with the City’s short-term investments).

#### b) Considerations and Limitations on Variable-Rate Debt

The City may consider the use of all alternative structures and modes of variable rate debt to the extent permissible under California law and will make determinations among different types of modes of variable rate debt based on cost, benefit, and risk factors. The Management Services Director must consider the following factors in considering whether to utilize variable rate debt:

- i. With respect to General Fund supported debt, one of the following two criteria should be met as determined by the Management Services Director in his or her discretion: 1) any variable rate debt should not exceed 20% of total City General Fund supported debt; or 2) annual debt service on any variable rate debt should not exceed 5% of the annual General Fund Revenue.
- ii. Any variable rate debt should be fully hedged by expected future capital fund reserves or unrestricted General Fund reserve levels, as applicable.
- iii. Whether interest cost and market conditions (including the shape of the yield curves and relative value considerations) are unfavorable for issuing fixed rate debt.
- iv. The likelihood of projected debt service savings when comparing the cost of fixed rate bonds.

- v. Costs, implementation and administration are quantified and considered.
- vi. Cost and availability of liquidity facilities (lines of credit necessary for variable rate debt obligations and commercial paper in the event that the bonds are not successfully remarketed) are quantified and considered.
- vii. Whether the ability to convert debt to another mode (daily, monthly, fixed) or redeem at par at any time is permitted.
- viii. Cost and availability of derivative products to hedge interest rate risk.
- ix. The findings of a thorough risk management assessment.

**c) Risk Management**

A decision to issue variable rate debt first requires a rigorous risk assessment including, without limitation, factors discussed in this section. Variable rate debt subjects the City to additional financial risks (compared to fixed rate bonds) including interest rate risk, tax risk, and certain risks related to providing liquidity for certain types of variable rate debt.

The City will properly manage the risks as follows:

- i. ***Interest Rate Risk and Tax Risk*** – The risk that market interest rates increase on variable-rate debt because of market conditions, changes in taxation of municipal bond interest or reductions in tax rates. *Mitigation* – Limit total variable rate exposure per the defined limits, match the variable rate liabilities with short term assets, and/or purchase appropriate derivative products to hedge against the risk (see also Section F.2 below).
- ii. ***Liquidity/Remarketing Risk*** – The risk that holders of variable rate bonds exercise their “put” option, tender their bonds, and the bonds cannot be remarketed requiring the bond liquidity facility provider to repurchase the bonds. This will result in the City paying a higher rate of interest to the facility provider and the potential rapid amortization of the repurchased bonds. *Mitigation* - Limit total direct variable-rate exposure. Seek liquidity facilities which allow for longer (5-10 years) amortization of any draws on the facility. Endeavor to secure credit support facilities that result in bond ratings of the highest short-term ratings and long-term ratings not lower than the second highest rating category (without taking into account numerical or plus/minus sign modifiers). If the City’s bonds are downgraded below these levels (or such other rating levels as provided in the applicable financing documents) as a result of the facility provider’s ratings, a replacement provider shall be sought.
- iii. ***Liquidity/Rollover Risk*** – The risk that arises due to the shorter term of most liquidity provider agreements (1-5 years) compared to the longer-term amortization schedule of the City’s variable-rate bonds. Liquidity and rollover risk includes the following risks: (1) the City may incur higher renewal fees when renewal agreements are negotiated; and (2) the liquidity bank market may constrict

such that it is difficult to secure third party liquidity at any interest rate. *Mitigation*  
– Negotiate longer terms on provider contracts to minimize the number of rollovers.

## **2. Derivatives**

Using certain derivative products to hedge variable rate debt, such as interest rate swaps, may be considered by the City to the extent it has such outstanding debt. The City must exercise extreme caution in the use of derivative instruments for hedging purposes and will consider their utilization only when sufficient understanding of the products and sufficient expertise for their appropriate use is developed by the Management Services Director. A comprehensive derivative policy must be adopted by the City Council before any utilization of such instruments.

## **REFUNDING GUIDELINES**

The Management Services Director must monitor all outstanding City debt obligations for potential refinancing opportunities. The City will consider refinancing of outstanding debt to achieve annual savings or to refinance a bullet payment or spike in debt service. Except for instances in which a bullet payment or spike in debt service is being refinanced, absent a compelling reason or financial benefit to the City, any refinancing should not result in an increase to the weighted average life of the refinanced debt.

Except for instances in which a bullet payment or spike in debt service is being refinanced or another City policy objective is being accomplished, the City will generally seek to achieve debt service savings which, on a net present value basis, are at least 3% of the debt being refinanced. The net present value assessment shall factor in all costs, including issuance, escrow, and foregone interest earnings of any contributed funds on hand. Any potential refinancing must additionally consider whether an alternative refinancing opportunity with higher savings is reasonably expected in the future. Refunding which produce a net present value savings of less than 3% will be considered on a case-by-case basis.

## **MARKET COMMUNICATION, ADMINISTRATION, AND REPORTING**

- 1. Rating Agency Relations and Annual or Ongoing Surveillance** – The Management Services Director is responsible for maintaining the City’s relationships with the major rating agencies that rate municipal bond issues (such as S&P Global Ratings, Fitch Ratings and Moody’s Investors Service). These agencies’ rating criteria often change and the City cannot control the decisions made by any rating agency. However, for each debt issue that the City will seek a rating assignment, the City will strive to obtain and maintain the highest possible underlying, uninsured rating. In addition to general communication, the Management Services Director must:
  - a)** Ensure the rating agencies are provided updated financial statements of the City as they become publicly available.
  - b)** Communicate with credit analysts at each agency as may be requested by the agencies.
  - c)** Before each proposed new debt issuance, schedule meetings or conference calls with agency analysts and provide a thorough update on the City’s financial position, including the impacts of the proposed debt issuance.

2. **Council Communication** – The Management Services Director should report to the City Council regarding feedback from rating agencies, when and if available, on the City’s financial strengths and weaknesses and areas of concern relating to weaknesses as they pertain to maintaining the City’s existing credit ratings.
3. **Continuing Disclosure Compliance** – The City will remain in compliance with Securities and Exchange Commission Rule 15c2-12 (17 CFR § 240.15c2-12) by filing (to the extent required by the applicable continuing disclosure undertaking). To that end, the “Continuing Disclosure Compliance Procedures,” attached as Appendix I, is incorporated as part of this Policy as if fully set forth.
4. **Debt Issue Record-Keeping** – A copy of all debt-related records must be retained in the City Clerk’s office. At minimum, these records must include all official statements, bond legal documents/transcripts, resolutions, trustee statements, leases, and title reports for each City financing (to the extent available).

Such records must be retained while any bonds of an issue are outstanding and during the six-year period following the final maturity or redemption of the bond issue or, if later, while any bonds that refund bonds of that original issue are outstanding and for the six year period following the final maturity or redemption date of the latest refunding bond issue.

5. **Arbitrage Rebate** – The use of bond proceeds and their investments must be monitored to ensure compliance with all arbitrage rebate requirements of the Internal Revenue Code and related Internal Revenue Service regulations, in keeping with the covenants of the City and/or related entity in the tax certificate for any federally tax-exempt financing. The Management Services Director must ensure that all bond proceeds and investments are tracked in a manner which facilitates accurate calculation; and, if a rebate payment is due, such payment is made in a timely manner.

## CREDIT RATINGS

The City will consider published ratings agency guidelines regarding best financial practices and guidelines for structuring its capital funding and debt strategies to maintain the highest possible credit ratings consistent with its current operating and capital needs.

## CREDIT ENHANCEMENT

Credit enhancement may be used to improve or establish a credit rating on a City debt obligation. Types of credit enhancement include letters of credit, bond insurance and surety policies. The City, in consultation with the City municipal advisor, may determine the use of a credit enhancement, for any debt issue, if it reduces the overall cost of the proposed financing or if the use of such credit enhancement furthers the City’s overall financing objectives.

## SB 1029 COMPLIANCE

Government Code § 8855 requires issuers to adopt debt policies addressing each of the five items below:

- i. *The purposes for which the debt proceeds may be used.*

Section C.2 (Acceptable Uses of Debt and Proceeds of Debt) and Section C.3 (Short-Term Debt) address the purposes for which debt proceeds may be used.

*ii. The types of debt that may be issued.*

Section C.3 (Short-Term Debt), Section D (Types of Financing Instruments; Affordable and Planning Policies), Section E (Structure of Debt) and Section F (Use of Alternative Debt Instruments) are among the provisions that provide information regarding the types of debt that may be issued.

*iii. The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable.*

Section C.1 (Acceptable Conditions for the Use of Debt) provides information regarding the relationship between the City's debt and Capital Improvement Program.

*iv. Policy goals related to the issuer's planning goals and objectives.*

As described in Section B (Background), Section D (Types Of Financing; Affordability and Planning Policies) and other sections, this Policy has been adopted to assist with the City's goal of maintaining fiscal sustainability and financial prudence.

*v. The internal control procedures 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 C.4 (Internal Control Procedures Concerning Use of Proceeds of Debt) provides information regarding the City's internal control procedures designed to ensure that the proceeds of its debt issues are spent as intended.

## GLOSSARY

***Ad Valorem Tax:*** A tax calculated “according to the value” of property. In California, property which is subject to *ad valorem* taxes is classified as “secured” or “unsecured.” The secured classification includes property on which any property tax levied by a county becomes a lien on that property. A tax levied on unsecured property does not become a lien against the unsecured property, but may become a lien on certain other property owned by the taxpayer.

***Annual Coverage Ratio:*** With respect to any bonds that are secured by a particular source of revenue for a particular 12 month period, the ratio obtained from dividing the estimated dollar amount of the revenue during such period by the scheduled principal and interest payment for the bonds during such period.

***Anticipation Notes:*** Short term notes (such as Tax and Revenue Anticipation Notes, Grant Anticipation Notes and Bond Anticipation Notes) issued to provide interim financing anticipated to be paid off from sources to be received at or before the maturity date of the anticipation notes (such as tax revenues, grant funds, proceeds of long-term bonds).

***Arbitrage:*** The gain that may be obtained by borrowing funds at a lower (often tax-exempt) rate and investing the proceeds at higher (often taxable) rates. The ability to earn arbitrage by issuing tax-exempt securities has been severely curtailed by the Internal Revenue Code of 1986, as amended.

***Assessed Valuation:*** The “value” of property as set by a taxing authority (such as the county assessor) on the tax roll for purposes of ad valorem taxation.

***Bond:*** A security that represents an obligation to pay a specified amount of money on a specific date in the future, typically with periodic interest payments.

***Bond Anticipation Notes:*** Short-term notes issued usually for capital projects and paid from the proceeds of the issuance of long-term bonds. Provide interim financing in anticipation of bond issuance.

***Bond Counsel:*** A specialized, qualified attorney retained by the issuer to give a legal opinion concerning the validity of securities. The bond counsel’s opinion usually addresses the subject of tax exemption. Bond counsel typically prepares and/or advises the issuer regarding legal structure, authorizing resolutions, trust indentures and the like.

***Bond Insurance:*** A type of credit enhancement whereby an insurance company indemnifies an investor against default by the issuer. In the event of failure by the issuer to pay principal and interest in full and on time, investors may call upon the insurance company to do so. Once issued, the municipal bond insurance policy is generally irrevocable. The insurance company receives its premium when the policy is issued and this premium is typically paid out of the bond issue.

***Capital Appreciation Bond:*** A municipal security on which the investment return on an initial principal amount is reinvested at a stated compounded rate until maturity, at which time the investor receives a single payment representing both the initial principal amount and the total investment return.

***CDIAC:*** California Debt and Investment Advisory Commission.

***Certificates of Participation:*** A financial instrument representing a proportionate interest in payments (such as lease payments) by one party (such as a city acting as a lessee) to another party (often a JPA or non-profit).

***Competitive Sale:*** A sale of bonds in which an underwriter or syndicate of underwriters submit sealed bids to purchase the bonds. Bids are awarded on a true interest cost basis (TIC), providing that other bidding requirements are satisfied. Competitive sales are recommended for simple financings with a strong underlying credit rating. This type of sale is in contrast to a Negotiated Sale

***Continuing Disclosure:*** An issuer’s obligations under its continuing disclosure agreements executed in connection with its bond issues. See “Rule 15c2-12” below. Under each continuing disclosure agreement, the issuer agrees to periodically provide certain relevant information and make such information available to the investing market. The information is generally required to be posted on MSRB’s Electronic

Municipal Market Access (EMMA) website.

**Credit Enhancement:** An instrument (such as a bond insurance policy, a debt service reserve insurance policy or surety bond, a letter of credit) which may be purchased to provide additional assurance that the repayment of the debt will be honored, and hence may enhance the credit rating for the debt issue.

**Credit Rating Agency:** A company that rates the relative credit quality of a bond issue and assigns a letter rating. These rating agencies include Moody's Investors Service, Standard & Poor's, and Fitch Ratings.

**Debt Limit:** The maximum amount of debt that is legally permitted by applicable charter, constitution, or statutes.

**Debt Service:** The amount necessary to pay principal and interest requirements on outstanding bonds for a given year or series of years.

**Default:** The failure to pay principal or interest in full or on time and, in some cases, the failure to comply with non-payment obligations after notice and the opportunity to cure.

**Derivative:** A financial instrument which derives its own value from the value of another instrument, usually an underlying asset such as a stock, bond, or an underlying reference such as an interest rate index.

**Disclosure Counsel:** A specialized, qualified attorney retained to provide advice on issuer disclosure obligations, to prepare the official statement and to prepare the continuing disclosure undertaking.

**Discount:** The difference between a bond's par value and the price for which it is sold when the latter is less than par. Also known as "underwriter discount," this is the fee paid to the underwriter its banking and bond marketing services.

**Enterprise Activity:** Specific activity that generates revenues. Common examples include water, wastewater and solid waste enterprises. A use of revenues generated by an enterprise activity for purposes unrelated to that enterprise is often subject to restrictions imposed by law. Debt service on bonds issued to finance facilities or projects for an enterprise is usually paid with the revenues of such enterprise.

**Financing Team:** The working group of City staff and outside consultants necessary to complete a debt issuance.

**Indenture:** A contract between the issuer and the trustee stipulating the characteristics of the financial instrument, the issuer's obligation to pay debt service, and the remedies available to the trustee in the event of default.

**Issuance Costs:** The costs incurred by the bond issuer during the planning and sale of securities. These costs include by are not limited to municipal advisory, bond counsel, disclosure counsel, printing, advertising costs, credit enhancement, rating agencies fees, and other expenses incurred in the marketing of an issue.

**Lease:** An obligation wherein a lessee agrees to make payments to a lessor in exchange for the use of certain property. The term may refer to a capital lease or to an operating lease.

**Lease Revenue Bonds:** Bonds that are secured by the revenue from lease payments made by one party to another.

**Maturity Date:** The date upon which a specified amount of debt principal or bonds matures, or becomes due and payable by the issuer of the debt.

**Municipal Advisor:** A consultant who provides the municipal issuer with advice on the structure of the bond issue, timing, terms and related matters for a new bond issue.

**Municipal Securities Rulemaking Board (MSRB):** A self-regulating organization established on September 5, 1975 upon the appointment of a 15-member board by the Securities and Exchange Agreement. The MSRB, comprised of representatives from investment banking firms, dealer bank representatives, and public representatives, is entrusted with the responsibility of writing rules of conduct for the municipal securities market. The MSRB hosts the EMMA website, which hosts information posted by issuers under their continuing disclosure undertakings.

**Negotiated Sale:** A sale of securities in which the terms of the sale are determined through negotiation

between the issuer and the purchaser, typically an underwriter, without competitive bidding. The negotiated sales process provides control over the financing structure and issuance timing. Negotiated sales are recommended for unusual financing terms, period of market volatility and weaker credit quality. A thorough evaluation, usually with the assistance of the City's Municipal Advisor, of the proposed bond's credit characteristics in conjunction with market conditions will be performed to ensure reasonable final pricing and underwriting spread.

**Net Present Value (NPV)** – A financial measurement whereby savings of a transaction are discounted back to money into a “today's” dollars equivalent. Often the discount rate used is the true interest cost (TIC—see definition below) rate on the proposed new bond issuance. Typically, in the municipal market place it is common to then divide the NPV value by the outstanding par amount of the bonds that are to be refunded to develop a percentage value.

**Official Statement (Prospectus):** A document published by the issuer in connection with a primary offering of securities that discloses material information on a new security issue including the purposes of the issue, how the securities will be repaid, and the financial, economic and social characteristics of the security for the bonds. Investors may use this information to evaluate the credit quality of the securities.

**Par Value:** The face value or principal amount of a security.

**Pension Obligation Bonds:** Financing instruments used to pay some or all of the unfunded pension liability of a pension plan. POBs are issued as taxable instruments over a 10-40 year term or by matching the term with the amortization period of the outstanding unfunded actuarial accrued liability.

**Premium:** The excess of the price at which a bond is sold over its face value.

**Present Value:** The value of a future amount or stream of revenues or expenditures.

**Private Placement:** A bond issue that is structured specifically for a small number of purchasers or a single purchaser. Private placements are typically carried out when extraneous circumstances preclude public offerings. A private placement is considered to be a negotiated sale.

**Redemption:** Depending on an issue's call provisions, an issuer may on certain dates and at certain premiums, redeem or call specific outstanding maturities. When a bond or certificate is redeemed, the issuer is required to pay the maturities' par value, the accrued interest to the call date, plus any premium required by the issue's call provisions.

**Refunding:** A procedure whereby an issuer refinances an outstanding debt issue by issuing a new debt issue.

**Rule 15c2-12:** Rule adopted by the Securities and Exchange Commission setting forth certain obligations of (i) underwriters to receive, review and disseminate official statements prepared by issuers of most primary offering of municipal securities, (ii) underwriters to obtain continuing disclosure agreements from issuers and other obligated persons to provide ongoing annual financial information on a continuing basis, and (iii) broker-dealers to have access to such continuing disclosure in order to make recommendations of municipal securities in the secondary market.

**Reserve Fund:** A fund established by the indenture of a bond issue into which money is deposited for payment of debt service in case of a shortfall in current revenues.

**Revenue Bond:** A bond which is payable from a specific source of revenue and to which the full faith and credit of an issuer is not pledged. Revenue bonds are payable from identified sources of revenue, and do not permit the bondholders to compel a jurisdiction to pay debt service from any other source. Pledged revenues often are derived from the operation of an enterprise.

**Secondary Market:** The market in which bonds are sold after their initial sale in the new issue market.

**Serial Bonds:** Bonds of an issue that mature in consecutive years or other intervals and are not subject to mandatory sinking fund provisions.

**Tax and Revenue Anticipation Notes (TRANS):** Short term notes issued in anticipation of receiving tax receipts and revenues within a fiscal year. TRANS allow the municipality to manage the period of cash shortfalls resulting from a mismatch between timing of revenues and timing of expenditures.

**Term Bonds:** Bonds that come due in a single maturity but where the issuer may agree to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity and for payment at maturity.

**True Interest Cost (TIC):** Under this method of computing the interest expense to the issuer of bonds, true interest cost is defined as the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue of bonds. Interest is assumed to be compounded semi-annually. TIC computations produce a figure slightly different from the net interest cost (NIC) method because TIC considers the time value of money while NIC does not.

**Trustee:** A bank retained by the issuer as custodian of bond proceeds and official representative of bondholders. The trustee ensures compliance with the indenture. In many cases, the trustee also acts as paying agent and is responsible for transmitting payments of interest and principal to the bondholders.

**Underwriter:** A broker-dealer that purchases a new issue of municipal securities from the issuer for resale in a primary offering. The bonds may be purchased either through a negotiated sale with the issuer or through a competitive sale.

**Weighted Average Useful Life:** In reference to a particular bond issue, the weighted average useful life of the assets financed with the proceeds of the bonds is calculated by giving weight to both the relative dollar amount spent on each asset and the useful life of that asset.

**Yield:** The net rate of return, as a percentage, received by an investor on an investment. Yield calculations on a fixed income investment, such as a bond issue, take purchase price and coupon into account when calculating yield to maturity.

**APPENDIX I**

**CONTINUING DISCLOSURE COMPLIANCE PROCEDURES**

**BACKGROUND AND TRAINING**

SEC Rule 15c2-12 requires certain information be disclosed to the municipal bond marketplace. The SEC stated that it has a mandate “to adopt rules reasonably designed to prevent fraudulent, deceptive or manipulative acts or practices in the market for municipal securities.” The SEC takes the position that material non-compliance by an issuer with past continuing disclosure obligations may warrant, without corrective actions, an underwriter being prohibited from underwriting the issuer’s bonds, and thus prevent the issuer from accessing the municipal bond marketplace.

The following procedures will help ensure compliance by the City of Monterey Park (“City”) with SEC Rule 15c2-12 and its continuing disclosure obligations under continuing disclosure agreements or similar instruments executed in connection with its municipal bond offerings. Certain capitalized terms herein will have the meanings ascribed to them in the respective continuing disclosure agreements or similar instruments.

**DESIGNATION OF RESPONSIBLE OFFICER**

The Responsible Officer will be the officer or other employee responsible for compiling and filing Annual Reports (as defined in the continuing disclosure agreements) and notices regarding enumerated events (“Event Notices”), if required to be filed pursuant to the continuing disclosure agreements or similar instruments. The initial Responsible Officer is the City’s Management Services Director. From time to time, the City Manager may designate a different person to serve as the Responsible Officer.

**1. RESPONSIBLE OFFICER TO BECOME FAMILIAR WITH “EMMA” AND FILING REQUIREMENTS UNDER CONTINUING DISCLOSURE AGREEMENTS**

- A. The Responsible Officer will take such action as may be necessary or appropriate to become familiar with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (“EMMA”) website. The Responsible Officer should understand how to locate on EMMA the filings made by the City in connection with bonds issued by the City. If the City is serving as its own Dissemination Agent, the Responsible Officer will establish a user identification and password for EMMA and become familiar with uploading documents onto EMMA.
- B. For each separate issue of the City’s outstanding bonds, the Responsible Officer will read the related continuing disclosure agreement or similar instrument and identify the following:
  - (i) The date by which the Annual Report must be filed;
  - (ii) The contents needed to be included in the Annual Report;
  - (iii) The Event Notices that must be filed; and
  - (iv) When Event Notices are required to be filed.
- C. The Responsible Officer should be aware of the types of events (the “Listed Events”) that would require the filing of an Event Notice. If clarification is required regarding what is meant by a Listed Event, the City’s bond counsel or disclosure counsel should be contacted to seek such clarification.

**2. PREPARATION AND FILING OF ANNUAL REPORTS AND EVENT NOTICES**

- A. The City will strive to begin the process of completing its audited financial statements as soon as practicable after the close of each Fiscal Year. Such audited financial statements should be completed in time to be submitted to the City Council (or other governing board) before the date that the Annual Report must be filed.
- B. The Responsible Officer will identify any information that is required to be included in the Annual Report but is not part of the City's audited financial statements, and contact the sources necessary to compile such information as soon as possible after the close of each Fiscal Year. The Responsible Officer will consider adding any information required by its continuing disclosure agreements or similar instrument not already included in its audited financial statements into a supplementary information section of audited financial statements.
- C. Following the compilation of the information that is to be included in the Annual Report, the Responsible Officer will (or will cause the Dissemination Agent to) submit the Annual Report to EMMA on or before the date on which the Annual Report must be filed.
- D. Each year, by not later than the date that the Annual Report is required to be filed on EMMA, the Responsible Officer will review the EMMA website to confirm that the Annual Report was posted with respect to all applicable securities. If the Annual Report was not posted, the dissemination agent will be notified, or the Responsible Officer will file the Annual Report, as applicable.
- E. The Responsible Officer will identify, or with the assistance of consultants engaged to monitor compliance will identify, the occurrence of a Listed Event and prepare, or have prepared, the appropriate Event Disclosure. The Responsible Officer will file (or will cause the dissemination agent to file) Event Notices on EMMA in a timely manner, when so required by the continuing disclosure agreements or similar instrument. The Responsible Officer will contact the City's bond counsel or disclosure counsel if there are any questions regarding whether an event constitutes a Listed Event, and whether such occurrence will require the filing of an Event Notice.
- F. In connection with amendments to SEC Rule 15c2-12 adopted in 2018, for any new continuing disclosure agreement executed on or after February 27, 2019 with respect to a debt issue (the "Debt"), the Responsible Officer must, before the Debt issuance date, review the City's financial records and create a list of the City's existing financial obligations (as such term is defined by SEC Rule 15c2-12) (the "Financial Obligations List"). The Financial Obligations List must be continuously updated by the Responsible Officer. Whenever the City prepares to enter into a new financial obligation or modify the terms of an existing financial obligation, the Responsible Officer must determine whether the incurrence of such financial obligation or modification of terms would require an Event Notice under the continuing disclosure agreement. If a determination is made that an Event Notice would be required, the Responsible Officer, in consultation with legal counsel, must cause the Event Notice to be filed on a timely basis, when so required by the continuing disclosure agreements or similar instrument.
- G. Certain Listed Events are qualified by a materiality standard. Materiality is determined according to SEC guidance available at the time. If clarification is required regarding materiality on any potential Listed Event, the Responsible Officer must contact the City's bond counsel or disclosure counsel to seek clarification. The Responsible Officer's determination of materiality will depend on the facts and circumstances surrounding the event and will take into consideration many factors including, without limitation, the following:

- Source of security pledged for repayment of the financial obligation,
- Rights associated with such a pledge (e.g., senior versus subordinate),
- Principal amount or notional amount (in the case of a derivative instrument or guarantee of a derivative instrument),
- Covenants,
- Events of default,
- Remedies,
- Other similar terms that affect security holders to which the issuer agreed at the time of incurrence,
- Size of the overall balance sheet,
- Size of existing obligations, and
- Size of the overall bond portfolio.

#### **RETENTION OF RECORDS**

- A. The documents identified below should be retained for a period of at least six years following the termination of the City's obligations (*i.e.*, the legal defeasance, prior redemption or payment in full of the related issue of municipal securities) under a continuing disclosure agreement or similar instrument.
- B. The City will retain, in its records, the transcripts containing the documents related to each issue of bonds or other obligations of the City.
- C. The City will retain copies, in paper or electronic form, of each Listed Event Notice submitted to EMMA.
- D. The City will retain copies, in paper or electronic form, of each Annual Report submitted to EMMA.
- E. To the extent that the content of an Annual Report is based on source materials created or obtained by the City, the City will retain in its records, such source materials created or obtained by the City.


**CERTIFICATION AND RECEIPT OF UNDERSTANDING**

**I certify that I have received a copy of the City of Monterey Park Policy for Disclosure Procedures. I have reviewed and understand its contents and agree to abide by the principles and requirements in the Disclosure Procedures.**

Name:  \_\_\_\_\_

Date: 01/20/2021

APPROVED AS TO FORM:

  
\_\_\_\_\_  
Karl H. Berger, City Attorney