DEBT MANAGEMENT POLICY

This Debt Management Policy (the "Debt Policy") of the City of Arcadia (the "City") was approved by the City's City Council on July 21, 2020. The Debt Policy may be amended by the City Council as it deems appropriate from time to time in the prudent management of the debt of the City. Any approval of debt by the City Council that is not consistent with this Debt Policy shall constitute a waiver of this Debt Policy.

1 FINDINGS

This Debt Policy is intended to comply with Government Code Section 8855(i), effective on January 1, 2017, and shall govern all debt undertaken by the City.

The City hereby recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the City's sound financial position.
- Ensure the City has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the City's credit worthiness. Ensure that all debt is structured in order to protect both current and future taxpayers, ratepayers and constituents of the City.
- Ensure that the City's debt is consistent with the City's planning goals and objectives and capital improvement program or budgets, as applicable.

2 SCOPE AND AUTHORITY

The Administrator Services Director, or designee, is charged with the responsibility for prudently and properly managing any and all debt incurred by the City. The following policy provides the methods, procedures, policies and practices which, when exercised, ensure the sound fiscal management of the City's debt program.

While adherence to this Policy is required in applicable circumstances, the City recognizes that changes in the capital markets, City programs, and other unforeseen circumstances may from time to time produce situations that are not covered by the Debt Policy and require modifications or exceptions to achieve policy goals. In these cases, management flexibility is appropriate, provided specific authorization from the City Council is obtained.

3 POLICIES

3.1 A. PURPOSES FOR WHICH DEBT MAY BE ISSUED

Long-Term Debt. Long-term debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment, and land to be owned and operated by the City.

(a) Long-term debt financings are appropriate when one or more of the following conditions exist:

- When the project to be financed is necessary to provide basic services.
- When the project to be financed will provide benefit to constituents over multiple years.
- When total debt does not constitute an unreasonable burden to the City and its taxpayers and ratepayers.
- When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.

(b) Long-term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses.

(c) The City may use long-term debt financings subject to the following conditions:

- The project to be financed must be approved by the Governing Board.
- The maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed.
- The Administrative Services Director, or designee, estimates that sufficient revenues will be available to service the debt through its maturity.
- The City determines that the issuance of the debt will comply with applicable state and federal laws.

Short-term debt. Short-term debt may be issued to provide financing for the City's operational cash flows in order to maintain a steady and even cash flow balance. Short-term debt may also be used to finance short-lived capital projects; for example, the City may undertake lease-purchase financing for equipment.

Financings on Behalf of Other Entities. The City may also find it beneficial to issue debt on behalf of other governmental agencies or private third parties in order to further the public purposes of the City. In such cases, the City shall take reasonable steps to confirm the financial feasibility of the project to be financed and the financial solvency of any borrower and that the issuance of such debt is consistent with the policies set forth herein.

3.2 TYPES OF DEBT

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

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

- General obligation bonds
- Bond or grant anticipation notes
- Lease revenue bonds, certificates of participation and lease-purchase transactions
- Other revenue bonds and certificates of participation
- Tax and revenue anticipation notes
- Land-secured financings, such as special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, as amended, and limited obligation bonds issued under applicable assessment statutes
- Conduit financings, such as financings for affordable rental housing and qualified 501(c)3 organizations
- State or federal loans, including Revolving Fund loans
- Loans and lines of credit with banks and other financial institutions
- Refunding bonds, notes, loans, and other obligations
- Pension Obligation Bonds

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

3.3 RELATIONSHIP OF DEBT TO CAPITAL IMPROVEMENT PROGRAM AND BUDGET

The City is committed to long-term capital planning. The City intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the City’s capital budget and the capital improvement plan.

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

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

The City shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from the General Fund.

3.4 Policy Goals Related to Planning Goals and Objectives

The City is committed to long-term financial planning, maintaining appropriate reserve levels, and employing prudent practices in governance, management, and budget administration.

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.

It is a policy goal of the City to protect taxpayers, ratepayers, and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

The City will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates, and charges.

When refinancing debt, it shall be the policy goal of the City to do so either for the purpose of realizing debt service savings or for the purpose of restructuring debt in a manner which is in the best financial interests of the City. Any refinancing of debt for the purpose of realizing debt service savings should seek achieve a minimum net present value debt service savings equal to or greater than 3.0% of the refunded principal amount. The 3.0% threshold should serve as a guideline; the City may refinance outstanding bonds in order to meet certain policy/financial objectives, such as: removing restrictive covenants, reshaping debt profile or budgetary/cash flow relief, unique financial circumstances or historically low interest rates, and limit term to maturity.

3.5 General Debt Guidelines

Purposes of Issuance - The City will utilize debt obligations only after giving due consideration to all available funding sources, including available cash reserves, available current revenues, potential future revenue sources, potential grants, and all other financing sources legally available to be used for such purposes. Long-term debt will not be issued for operations or maintenance costs. Expenditure of bond proceeds should be limited to major, non-recurring expenditures/expenses, including but not limited to: the financing of costs related to capital project planning and design, land acquisition, real property, and equipment acquisition; the construction or renovation of buildings and permanent structures and the equipping thereof; financing costs related to the issuance of securities, capitalized interest, necessary or financially prudent debt service reserves; or other costs as permitted by law. Refunding bond issues designed to restructure currently outstanding debt are an acceptable use of bond proceeds.

Approval by the City Council - All long-term financing transactions shall be approved by the City Council. Such approvals shall not be on the consent calendar. The City Council shall comply with all public hearing requirements applicable to the specific type of debt being approved.

Maximum Maturity - All debt obligations shall have a maximum maturity of the earlier of: i) the estimated useful life of the capital improvements being financed, ii) 30 years or, iii) in the event obligations are being issued to refinance outstanding debt obligations, the final maturity of the debt obligations being refinanced unless a longer term is approved by the City Council.

Debt Limitations - All long-term financings will comply with applicable statutory regulations and City policy. Specifically, the City will maintain compliance with California Government Code Section 43605 limiting applicable indebtedness to 15% of the City's assessed all real and personal property valuation. Other debt limitations will be established for specific issuances to ensure all debt covenants can be met and operations can be maintained.

Debt Structures - Debt shall be issued as fixed rate debt unless the City makes a specific determination as to why a variable rate issue would be beneficial to the City in a specific circumstance.

Capitalized Interest (Funded Interest) - Subject to federal and state law, interest may be capitalized from date of issuance of debt obligations through the completion of construction. Interest may also be capitalized for projects in which the revenue designated to pay the debt service on the bonds will be collected at a future date, not to exceed six months from the estimated completion of construction and offset by earnings in the construction fund.

Bond Covenants and Laws - The City shall comply with all covenants and requirements of applicable bond resolutions, indentures, trust agreements, and other financing documents, as well as applicable state and federal laws authorizing and governing the issuance and administration of debt obligations.

Method of Sale - Bonds will be sold on a competitive basis unless it is in the best interest of the City to conduct a negotiated sale or private placement. Negotiated sales may occur when selling bonds to refund existing debt, for land-secured debt, for variable interest rate debt, for conduit debt, or for other appropriate reasons. Private placements may occur when economically advantageous for conduit debt, for capital requirements too small to bear the costs of a public debt issuance, for debt obligations with short amortization schedules, or for other valid reasons. Staff shall evaluate the cost-effectiveness of alternative financing methods before the City conducts a private placement of debt.

Refunding - The City shall review its outstanding debt for the purpose of determining if the financial marketplace will afford the City the opportunity to refund an issue and lessen its debt service costs. For refunding undertaken to achieve debt service savings, the sum total of all savings (net of expenses and funds contributed by the issuer at the time of closing), discounted to the present at the bond true interest cost, should at a minimum produce net present value savings equal to at least 3% of the par amount of refunding bonds to be sold. Refunding may be undertaken for reasons other than to achieve debt service savings, such as to remove restrictive covenants or restructure debt payments. Such restructuring refunding do not need to achieve 3% net present value savings.

Municipal Code and State and Federal Laws - All debt issued must be in conformance with applicable sections of the Municipal Code, as well as with state and federal laws in effect at the time of issuance.

Use of Public Financing Authorities - Depending upon the nature of the debt being issued, the City may elect to create a public financing authority should doing so be to the City's advantage.

Arbitrage Rebate Monitoring - Staff will comply with the arbitrage rebate and monitoring requirements as set forth by the U.S. Treasury Department. Should staff determine that it is advisable to do so, arbitrage rebate analysis reports may be performed more frequently than once every five years as is required by the U.S. Treasury Department.

Investment of Bond Proceeds - Bond proceeds will be invested only in investments as permitted by the applicable governing document of the bond issue. When placing such investments, staff will ensure that there is sufficient liquidity to meet the underlying needs (i.e. construction funds or debt service reserve funds) of the funds being invested. Staff will give due consideration to credit risk and counterparty risk when investing such funds.

Continuing Disclosure - The City will remain in compliance with Title 17 Code of Federal Regulations §240 15c2-12, Municipal Securities Disclosure, by filing our annual financial statements and other financial information for the benefit of our bondholders no later than the last day of the seventh month following the close of the fiscal year and file material event notices in a timely manner.

Use of Bond Proceeds - The Administrative Services Director, or designee, and other appropriate City personnel shall:

- Monitor the use of Bond proceeds and the use of Bond-financed assets (e.g., facilities, furnishings or equipment) throughout the term of the Bonds (and in some cases beyond the term of the Bonds) to ensure compliance with covenants and restrictions set forth in applicable City resolutions and Tax Certificates.
- Maintain records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of Bonds.
- Consult with Bond Counsel and other professional expert advisers in the review of any contracts or arrangements involving use of Bond- financed facilities to ensure compliance with all covenants and restrictions set forth in applicable City resolutions and Tax Certificates.

- Maintain records for any contracts or arrangements involving the use of Bond-financed facilities as might be necessary or appropriate to document compliance with all covenants and restrictions set forth in applicable City resolutions and Tax Certificates.

3.6 Internal Control Procedures

When issuing debt, in addition to complying with the terms of this Debt Policy, the City shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

The City will periodically review the requirements of and will remain in compliance with the following:

- Any continuing disclosure undertakings under SEC Rule 15c2-12;
- Any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues; and
- The City's investment policies as they relate to the investment of bond proceeds.

It is the policy of the City to ensure that proceeds of debt are spent only on lawful and intended uses. Whenever reasonably possible, proceeds of debt will be held by a third-party trustee and the City will submit written requisitions for such proceeds.

The City shall seek to borrow tax-exempt proceeds that can be reasonably spent within the IRS spending requirement approximately 3 years.

The City will submit a requisition only after obtaining the signature of the City Manager. In those cases where it is not reasonably possible for the proceeds of debt to be held by a third-party trustee, the person performing the function of chief financial officer of the City shall retain records of all expenditures of proceeds through the final payment date for the debt.

3.7 Adoption By Related Local Agency

This Debt Policy may be adopted, and shall be applicable to, any other local agency for which the City Council acts as the governing board thereof (each, a "Local Agency"). The adoption of this Debt Policy by the Local Agency shall be evidenced by a resolution adopted by the City Council, in its capacity as the governing board of such Local Agency, adopting this Debt Policy and specifying the officer(s) authorized to submit the requisitions, and required to retain the records, described in Section E above on behalf of such Local Agency.