City of
FRESNO

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Councilmember
District 6

December 3, 2009

TO: Fresno City Council

FROM: Councilmember Lee Brand

SUBJECT: CONSIDER APPROVAL OF RESOLUTION ESTABLISHING TAXPAYER PROTECTION ACT TO INSTITUTE FORMAL DEBT MANAGEMENT POLICIES

Agenda Item

Consider approval of policy titled Taxpayer Protection Act to institute formal debt financing management policies for the City of Fresno.

1. Adoption of Resolution No. _____ Establishing Taxpayer Protection Act to institute formal debt financing management policies

Background

There are currently no written debt issuance and management policies for the City of Fresno. I reviewed over 20 cities' debt management policies in California and across the nation. This resolution integrates the best practices of other debt management plans and makes them applicable to the City of Fresno.

This plan is consistent with the provisions of the City Charter, and any enabling legislation. It incorporates existing business practices and informal debt issuance and management policies. It will establish parameters for issuing debt and managing a debt portfolio that encompasses the City's capital improvement needs and its ability to repay financial obligations using a long term financial planning model. Debt management policies improve the quality of decisions, provide justification for the structure of debt issuance, identify policy goals, and demonstrate a commitment to long term financial planning. This resolution will establish conditions for the use of debt and create procedures and policies that will minimize the City's debt service and insurance costs, retain the highest credit rating, and maintain full and complete disclosure and reporting.

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RESOLUTION NO. _____

RESOLUTION TO ESTABLISH TAXPAYER PROTECTION ACT TO INSTITUTE FORMAL DEBT FINANCING MANAGEMENT POLICIES

WHEREAS, establishing specific debt management policies will improve oversight of City financial resources; enhance the City's credit quality; and provide more standardization for the issuance of debt in protection of taxpayers; and

WHEREAS, the City does not currently have codified debt issuance and management policies; and

WHEREAS, debt management policies will help maintain the City's ability to incur present and future debt and refinance/refunding at minimal interest rates in amounts needed for infrastructure and economic development of the City without endangering the City's ability to finance essential City services and still maintain sound financial management practices; and

WHEREAS, uncertain and volatile economic conditions warrant more stringent and structured debt management policies; and

WHEREAS, debt management policies will help to ensure the prudent use of the City's bonding authority and borrowing capacity through an effective system of financial security and internal controls, yet also allow for exceptions under extraordinary conditions;

NOW, THEREFORE, BE IT RESOLVED, BY THE COUNCIL OF THE CITY OF FRESNO, as follows:

The City has a responsibility to taxpayers to account for public funds, manage City finances wisely, manage growth, and plan for the adequate funding of services desired by the public, including the provision and maintenance of public facilities. The goal of this Resolution is to establish and maintain effective debt management of the City's financial resources. Formal policy statements and major objectives provide the foundation for achieving this goal.

This Resolution will be consistent with, and controlled by the provisions of the City Charter and any enabling legislation and incorporates existing business practices and informal debt issuance and management policies. These policies will identify acceptable and unacceptable courses of action, establish parameters in which the City can operate and provide a standard for fiscal performance.

This resolution will establish the attached City of Fresno Debt Management Policies, incorporated herein, as conditions for the use of debt and to create procedures and policies that will minimize the City's debt service and insurance costs, retain the highest credit rating, and maintain full and complete financial disclosure and reporting. Debt management policies improve the quality of decisions, provide justification for the structure of debt issuance, identifies policy goals, and demonstrates a commitment to long term financial planning. Conforming to debt management policy also signals to rating agencies and the capital markets that the City is well managed and should meet its obligations in a timely manner.

This resolution shall take effect upon the effective date and shall apply to financings issued after its effective date unless expressly otherwise provided in this resolution.

City of Fresno

Debt Management Policies

As of December 2, 2009

The following policies are enacted in an effort to standardized and rationalize the issuance and management of debt by the City of Fresno. A debt policy sets forth the parameters for issuing debt, providing guidance to decision makers regarding the amounts and types of appropriate debt, the timing and purposes for which debt may be issued, business practices associated the issuance of debt, and structural features that may be incorporated.

TABLE OF CONTENTS

		Page
i	**Introduction**	
	1) Policy and Objectives	1-3
	2) Goals	4
I	**Article I Definitions**	4-8
II	**Article II Debt Management**	
	1) Section 1. Introduction & Term of Debt	8-9
	2) Section 2. Debt Repayment	9
	3) Section 3. Debt Structure	9-10
	4) Section 4. Debt Structure Practices	10-12
	5) Section 5. Debt Level and Capacity	12
	6) Section 6. Debt Measurement Ratios	13
	7) Section 7. General Fund Net Debt Service Limit	13-14
	8) Section 8. Enterprise Debt Limits	14
	9) Section 9. Variable Rate Debt	14
III	**Article III Asset Life**	14
IV	**Article IV Methods of Financing**	
	1) Section 1. Cash Funding	15
	2) Section 2. Capitalized Interest	15
	2) Section 3. Short Term Financing	15-16
	3) Section 4. Long Term Financing	16-19
V	**Article V Funding Source Matrix**	20
VI	**Article VI Service Provider Selection and Compensation**	
	1) Section 1. City Financial Professionals Team	20-21
	2) Section 2. Compensation for Services	21
VII	**Article VII Debt Administration and Disclosure**	
	1) Section 1. Ongoing Debt Administration and Disclosure	22
	2) Section 2. Insurance Certification	22
VIII	**Article VIII Method of Sale**	
	1) Section 1. Competitive and Negotiated Sale	23
	2) Section 2. Public Offerings, Private Placement & Other Placement	23-24

		Page
IX	**Article IX Bond Rating, Communications and Selection**	
	1) Section 1. Bond Rating and Communications	24
	2) Section 2. Bond Selection	24
X	**Article X Refunding Policies**	24-25
XI	**Article XI Investment of Bond Proceeds**	25
XII	**Article XII Call Options and Redemption Provisions**	25
XIII	**Article XIII Credit Enhancements**	26
XIV	**Article XV Debt Management Advisory Committee**	26
XV	**Article XV Annual Debt Report**	26
XVI	**Article XVI Super Majority Vote**	27
XVII	**Article XVII Transparency**	27
XVIII	**Article XXIII Review of Debt Management Policy**	27
XIX	**Article XXIX Effective Date**	27

CITY OF FRESNO
DEBT MANAGEMENT POLICIES

An effective debt management policy provides guidelines for the City to manage its debt program in line with its resources. This debt management policy is intended to guide prudent use of resources to provide the needed services to taxpayers and to maintain sound management practices.

POLICY

These policies will govern primarily debt issued by the City on behalf of its taxpayers. Some polices relative to debt issued by the City on behalf of other parties is also covered.

A Debt Management Policy sets forth certain debt management objectives and establishes overall parameters and provides general direction in the planning for issuing and administering the City's debt. The purpose is to also maintain the City's ability to incur debt and other long-term obligations at favorable interest rates for capital improvements, facilities and equipment beneficial to the City and necessary of essential services. Recognizing that cost-effective access to the capital markets depends on prudent management of the City's debt program, the City Council has adopted this Debt Management Policy by resolution.

OBJECTIVES

The purpose of this Debt Management Policy is to assist the City in the pursuit of the following equally important objectives:

- Minimize debt service and issuance costs
- Provide a scheduling component (planning)
- Maintain access to cost-effective borrowing;
- Achieve the highest practical credit rating;
- Full and timely repayment of debt;
- Balance use of pay-as-you-go and debt financing;
- Maintain full and complete financial disclosure and reporting; and
- Ensure compliance with applicable State and Federal laws.

CREDITWORTHINESS OBJECTIVES

The City seeks to maintain the highest possible credit ratings for all categories of short and long-term debt instruments without compromising the delivery of basic City services and achievement of City policy objectives. Ratings are a reflection of the general fiscal soundness of the City and the capabilities of its management. By maintaining the highest possible credit ratings, the City can issue its debt at a lower interest cost. To improve creditworthiness, the City is committed to prudent financial management, capital planning, and long term financial planning.

The City recognizes that external economic, natural, or other events will affect the creditworthiness of its debt. Each proposal for additional debt will be analyzed for its impact upon the City's debt rating on outstanding debt. The major source of risk considered by the rating services is the stability and

reliability of revenue(s) to service the debt. Projects with volatile or risky debt repayment revenue streams that may adversely impact the City's rating will be avoided.

Credit ratings issued by the bond rating agencies are a major factor in determining the cost of borrowed funds in the municipal bond market. The concept of debt capacity, or affordability, recognizes that the City of Fresno has a finite capacity to issue debt at a given credit level. It should also be recognized however that there are no predetermined debt level/credit rating formulas available from the rating agencies. Many factors are involved. Determination of a credit rating by a rating agency is based on the rating agency's assessment of the credit worthiness of an issuer with respect to a specific obligation. To arrive at a judgment regarding the issuer's credit worthiness, the rating agencies analyze the issuer in four broad, yet interrelated areas: *Economic Base, Debt Burden, Administrative Management, and Fiscal Management.*

Economic Base – The overall economic strength of the City is heavily weighted in the evaluation the of the City's creditworthiness by diversity of both economic base and tax base. The diversity of the City's industries reflects its ability to weather industry-specific downturns as well as general economic recession. In either scenario, stronger surviving industries carry the ailing industries through the period of downturn. The City relies on taxes on its residents and businesses for the majority of its revenues. The ability of the City to continue to receive those revenues is directly related to the ability of its taxpayers to pay their taxes. Property values, employment, unemployment, income levels, costs of living and other factors impacting the wealth of the taxpayers and provides an indication of the strength and diversity of the City's tax base.

Debt Burden - The City's overall debt burden is considered in the credit analysis process. In addition to government regulated debt ceiling, the City's ability to maintain manageable debt levels and debt service coverage is evaluated. Other positive indicators are proper management of existing debt, proactive efforts in identifying and executing financially prudent refunding opportunities, and closely matching capital financing structures to the funding needs of the project.

As part of the credit analysis process, the rating agencies look at several quantitative indicators which include Net Direct Debt both expressed as an amount per capita and as a percentage of assessed value. Also evaluated is leverage; long-term debt as a percentage of net capital assets. (See Definitions in Article I)

Administrative Management - These factors include the examination of the form of government and assessment of the City's ability to implement plans as well as to fulfill legal requirements. The focus is on the capabilities of the management staff within the City, which is seen as a vital ingredient in assessing its credit quality. Managerial and legislative willingness to make difficult decisions, development of financial policies, and the reliability and continuity of regular-updated accounting and financial information are key.

Fiscal Management – Financial results have the most significant impact on the rating process. This review involves an examination of the results of operations, including a review of actual fiscal performance versus planned budgeted performance, with deviations from the plan to be explained. The General Fund financial statement is examined with emphasis on current financial position and funds balances, as well as three-to-five-year trends in planning and budgeting procedures. Pension liabilities as well as other unfunded liabilities are also important in the analysis process. The City's Comprehensive Annual Financial Report (i.e.,GAAP results and prior year results) is critical in providing meaningful, valuable and timely information to the rating agencies.

GOALS

It shall be the goal of the City to achieve the highest practical credit ratings and to strive to elevate and maintain those ratings in order to sustain cost-effective access to capital markets through the use of prudent policies and to maintain moderate debt and debt service payments with effective planning and coordination with City departments and to meet significant capital demands through a combination of debt financing, pay-as-you-to and other alternative financing mechanisms such as public/private partnerships.

The City will annually calculate the indebtedness that is directly supported by General Fund revenue and self supporting sources. Such debt will consist of that portion of the debt that is serviced from the City's governmental funds or other funds that receive revenues from general City taxes. This General Fund supported Net Direct Debt will not exceed ten percent (10%) of appropriated General Fund self supporting expenditures in any given year. Similar calculations will be made for the Enterprise Funds with parameters established as appropriate for each.

ARTICLE I
DEFINITIONS

Arbitrage Administration
Establishing and maintaining, either directly or through contract, a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. This effort will include tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law and remitting any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the City's outstanding debt issues.

Bond Anticipation Note
Bond Anticipation Notes can be used to provide interim financing in anticipation of a bond issuance.

Budget
A plan of financial operation containing an estimate of proposed expenditures for a given period (usually a fiscal year) and a proposed means of financing them. A budget is also a plan that outlines an organization's financial and operational goals.

Capital Expenditures are expenditures creating future benefits. A capital expenditure is incurred when monies are spent either to buy fixed assets or to add to the value of an existing fixed asset with a useful life that extends beyond the fiscal year. In accounting, a capital expenditure is added to an asset account ("capitalized"), thus increasing the asset's basis (the cost or value of an asset). For taxpaying entities, capital expenditures are costs that cannot be deducted in the year in which they are paid or incurred, and must be capitalized. The general rule (even for municipalities) is that if the property acquired has a useful life longer than the taxable/fiscal year, the cost must be capitalized. The capital expenditure costs are then amortized or depreciated over the life of the asset in question.

Capital Improvement Plan (Program), or CIP; The Capital Improvement Plan (CIP) forecasts the City's capital needs over generally a five-year period based on various City-adopted long-range plans, goals and policies. Capital projects are generally large-scale endeavors in terms of cost, size and benefit to the community. The underlying strategy of the CIP is to plan for land acquisition, construction, and major maintenance of public facilities necessary for the safe and efficient provision of services. A critical element of a balanced CIP is the provision of funds to preserve or enhance

existing facilities and provide new assets that will aid response to service needs and community growth.

The goals of the CIP are to:

- Provide a balanced program for capital improvements given anticipated funding revenues over a fivw-year planning period;
- Illustrate unmet capital needs based on anticipated funding levels, and;
- Provide a plan for capital improvements which can be used in preparing the capital budget for the coming two fiscal years.

Capitalized Interest
A portion of the proceeds of an issue that is set aside to pay interest on the securities for a specified period of time. Interest is commonly capitalized for the construction period of a project financed with Lease Revenue or Enterprise Revenue Bonds, prior to the project producing revenue, and sometimes for a period thereafter, so that debt service expense does not begin until the project is expected to be operational and producing revenues. Capitalized interest is sometimes referred to as "funded interest".

Capital Project
A long term investment project requiring relatively large sums to acquire, develop, improve, and/or maintain a capital asset (such as land and buildings, including such municipal improvements as streets, sewers, fire stations, and parks) A Capital Project is a project that helps maintain or improve a City asset, often called infrastructure. To be included in the Capital Budget, a project must meet ONE of the following requirements (criteria):

- It is a new construction, expansion, renovation, or replacement project for an existing facility or facilities. The project must have a total cost of at least $50,000 over the life of the project. Project costs can include the cost of land, engineering, architectural planning, and contract services needed to complete the project; or

- It is a purchase of major equipment (assets) costing $50,000 or more with a useful life of at least 10 years, or

- It is a major maintenance or rehabilitation project for existing facilities with a cost of $50,000 or more and an economic life of at least 10 years.

Certificates of Participation/Lease Revenue Bonds
Certificates of Participation (COPs) and Lease Revenue Bonds (LRBs) are financing structures utilizing lease obligations secured by an installment sale or by a lease-back arrangement between the City and another public entity, where the general operating revenues of the City are pledged to pay the lease payments, which are, in turn, used to pay debt service on the bonds or Certificates of Participation. These obligations do not constitute indebtedness of the City as defined under the *state constitutional debt limitation* and, therefore, are not subject to voter approval but typically subject to annual appropriation.

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. 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 payment schedule. The governmental lessee is obligated to be placed in its Annual Budget the rental payments that are due and payable during each fiscal year the lessee has use of the leased property.

Comprehensive Annual Financial Report (CAFR)
A Comprehensive Annual Financial Report is a government financial statement which goes beyond the minimums established for public sector entities by the National Committee on Municipal Accounting (NCMA). The CAFR is presented reflecting fund accounting and enterprise authority accounting. The Securities and Exchange Commission (SEC) Rule 15c2-12 requires a legal undertaking on the part of government debt issuers to provide certain annual financial information on an ongoing basis. While the SEC does not establish a standardized format for presenting this information, the Government Finance Officers Association (GFOA) has however formally recognized the CAFR as an appropriate document for meeting the disclosure requirements of SEC Rule 15c2-12.

Conduit Debt
Conduit debt is a bond or other debt obligation issued by the City to finance a project developed/owned by a non-governmental third party. This arrangement is typically used for qualified nonprofit organizations and multi-family housing projects.

Debt Derivative
Hybrid financial instruments whose value is "derived" from or based upon the value of another underlying security.

Debt Service
The principal and interest payments on obligations, including short and long term bonds.

Enterprise Funds
A fund established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the government body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Expenditures
The payment for the cost of goods delivered or services rendered during the fiscal year, whether paid or unpaid, including expenses, provision for debt retirement not reported as a liability of the fund from which retired, and capital outlays.

Fiscal Year
A 12 month period to which the annual operating budget applies and the end of which a governmental unit determines its financial position and the results of its operations. The City has specified July 1 through June 30 as its fiscal year.

Generally Accepted Accounting Principles (GAAP)
Generally Accepted Accounting Principles is the term used to refer to the standard framework for guidelines for financial accounting used in any given jurisdiction. The accounting profession has chosen to identify minimum standards governing the formatting and contents of general purpose external financial reports in both public and private sectors. GAAP are designed to provide all primary users of general purpose external financial reports with the basic information needed to assess an entity's finances.

General Fund
Revenues of the City that are not otherwise restricted as to their use, including monies from local property and sales tax, and other revenue sources. The General Fund pays for City services such as police; fire; public works; elected offices; City Manager; City Clerk; City Attorney; parks and recreation, and community services.

General Obligation Bonds
A municipal bond backed by the taxing power of the issuing jurisdiction and paid out of a supplemental levy of ad valorem property taxes. The California State Constitution requires that the issuance of a general obligation bond must be approved by a two thirds majority on the bond proposition. Uses of bond proceeds are limited to the acquisition and improvement of real property.

Impact Fees
Fees adopted by the City requiring new developments to pay its proportional share of costs associated with providing necessary public infrastructure.

Infrastructure
Facilities that support the daily life and growth of the City, including roads, water and sewer lines, public buildings, parks and airport facilities.

Judgment Obligation Bonds
Judgment Obligation Bonds pay for legal settlements and are unconditional obligations of the city payable from General Fund revenues. Funds will be appropriated from the General Fund in each fiscal year to pay principal and interest on the bonds. The city cannot levy a tax for payment of this debt service.

Leverage
Long-term debt (including current portion) divided by capital assets, net of depreciation.

Long Term Debt
Loans and obligations with a maturity longer than 12 months usually accompanied by principal and interest payments.

Net Direct Debt
Tax-supported debt, net of self-supporting and revenue anticipation debt. Includes the City's non-self-sustaining lease revenue debt. Excludes the City's general obligation and special assessment/tax bonds which are paid from voter-approved special assessments or taxes, Lease Revenue Bonds paid from non-General Fund sources, and airport, parking and other enterprise bonds, which are obligations of those enterprise funds.

Pension Obligation Bonds
Pension Obligation Bonds are financing instruments used to pay some or all of the unfunded pension liability of a pension plan. The Federal Tax Code requires they be issued on a taxable basis. Because of the limited case law distinguishing such "obligations imposed by law" from constitutionally limited "indebtedness," these obligations are typically validated in the Superior Court prior to issuance.

Property Tax
A general ad valorem tax levied on both real and personal property according to the property's assessed valuation and the tax rate.

Revenue
Funds that the government receives as income. It includes such items as tax payments, fees from specific services, receipts from other governments, fines, forfeitures, grants, shared revenues and interest income. For the government, the increase in assets of governmental funds that do not increase liability or recovery of expenditure.

Revenue Bonds
Revenue Bonds are bonds issued by governments and public agencies that are secured by the revenue flow of the issuing agency. Revenue Bonds typically refer to bonds secured by enterprise revenues, such as water, wastewater, or refuse collection utilities. Since the debt service is directly paid from and secured by special funds, such debt is not subject to the State Constitutional Debt Limit. The City typically issues Revenue Bonds under its Charter powers. Revenue bonds are sometimes issued as Certificates of Participation secured by an installment sale or installment purchase agreement.

Short Term Debt
Debt payable within 12 months and includes not only the repayment of principal, but interest during the loan period.

Special Assessment/Special Tax
Funds generated through the formation of an assessment district or special tax and the levy of an additional charge reflecting the special benefit to individual properties, typically used to provide public improvements such as street construction and flood control.

Special Funds
Special Revenue Funds may be used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specified purposes. Legal restrictions are imposed by outside parties not by the governing body.

State Constitutional Debt Limitation
Constitutional debt limits which exist to impose constraints on the amount of debt that a local government can incur. For the purpose of the City of Fresno those limits are as follows:

CALIFORNIA CONSTITUTION
ARTICLE 16 PUBLIC FINANCE

SEC. 18. (a) No county, city, town, township, board of education, or school district, shall incur any indebtedness or liability in any manner or for any purpose exceeding in any year the income and revenue provided for such year, without the assent of two-thirds of the voters of the public entity voting at an election to be held for that purpose, except that with respect to any such public entity which is authorized to incur indebtedness for public school purposes, any proposition for the incurrence of indebtedness in the form of General Obligation Bonds for the purpose of repairing, reconstructing or replacing public school buildings determined, in the manner prescribed by law, to be structurally unsafe for school use, shall be adopted upon the approval of a majority of the voters of the public entity voting on the proposition at such election; nor unless before or at the time of incurring such indebtedness provision shall be made for the collection of an annual tax sufficient to pay the interest on such indebtedness as it falls due, and to provide for a sinking fund for the payment of the

principal thereof, on or before maturity, which shall not exceed forty years from the time of contracting the indebtedness.

The Supreme Court has found that certain kinds of transactions are "exceptions" to the debt limit, such as lease obligations and special fund obligations (Revenue Bonds).

Tax Allocation Bonds
Tax Allocation Bonds (TABs) are special obligations that are secured by the allocation of tax increment revenues that are generated by increased property taxes from new construction in a designated redevelopment project area. The revenue is deposited in a special fund to pay for public improvements within the designated area. TABs are limited obligations and not a debt of the City.

Tax and Revenue Anticipation Notes
Tax and Revenue Anticipation Notes (TRANs) are short-term notes (line of credit), payable out of revenues of the current fiscal year, proceeds of which allow a Municipality to cover the periods of cash shortfalls resulting from a mismatch between timing of revenues and timing of expenditures.

ARTICLE II
DEBT MANAGEMENT

Section 1. Introduction

The purpose of the Debt Policy is to establish guidelines for the issuance and management of the City's debt. This Debt Policy confirms the commitment of the Council, management, staff, advisors and other decision makers to adhere to sound financial management practices, including full and timely repayment of all borrowings, achieving the lowest possible cost of capital within prudent risk parameters and encouraging the use of local and California-based advisors and underwriters when appropriate and feasible.

Priorities of the Debt Policy are as follows:

1. Achieve the lowest cost of capital;
2. Maintain a prudent level of financial risk;
3. Preserve future financial flexibility;
4. Maintain strong credit ratings and good investor relations; and
5. Ensure that local, emerging and disadvantaged business enterprise investment banking and financial firms will be considered for, and utilized in, lead and senior manager roles when appropriate.

Scope and Authority

This Debt Policy shall govern, except as otherwise covered by the Investment Policy, the issuance and management of all debt and lease financings funded from the capital markets, including the selection and management of related financial services and products, and investment of bond and lease proceeds. While adherence to this Policy is required in applicable circumstances, it is recognized that changes in the capital markets, agency programs and other unforeseen circumstances may from time to time produce situations that are not covered by the Policy and will require modifications or exceptions to achieve policy goals. In these cases, management flexibility is appropriate, provided specific authorization from the City Manager and the Council is obtained.

Term of Debt:

A) **General Fund**: Debt will be structured for the shortest period possible, consistent with a fair allocation of costs to current and future beneficiaries or users. The issuance of debt by the City should be of a duration that does not exceed the useful life of the improvement that it finances and where feasible, should be shorter than the projected economic life. The standard term of long-term borrowing is typically 15-30 years.

   a. The City shall keep the average maturity of General Fund Obligation Bonds at or below 30 years but with a goal of 20 years, unless special circumstances arise warranting the need to extend the debt schedule. It shall be the policy of the City to not issue debt to fund General Fund operating deficits with the exception of Tax and Revenue Anticipation Notes (TRAN's).

B) **Enterprise:** The term of Enterprise debt will be structured such that the obligations do not exceed the expected useful life of the respective projects. The City shall keep the average maturity of Enterprise Revenue Bonds at or below 30 years, unless special circumstances arise warranting the need to extend the debt schedule.

Section 2. Debt Repayment

In structuring a bond issuance, debt management will manage the amortization of debt, and to the extent possible, match its cash flow to the anticipated debt service payments. The City will seek to structure the debt portfolio with aggregate level principal and interest payments. Upon the issuance of each new debt instrument, the portfolio will be evaluated as will the type of project being financed, and current economic conditions. The cost of capital, financial risk, future financial flexibility, credit ratings as well as available cash flow will all be evaluated to determine the best amortization of new debt as it relates to the existing portfolio.

Back loading is an agreement in which heavier charges are levied or greater benefits accrue toward the end of its term. Back loading of debt service will be considered only when one or more of the following occur:

1. Natural disasters or extraordinary or unanticipated external factors make payments on the debt in early years prohibitive
2. The benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present
3. Such structuring is beneficial to the City's aggregate overall debt payment schedule
4. Such structuring will allow debt service to more closely match project revenues during the early years of the project's operation.

Section 3. Debt Structure

The structure of City debt financing will conform to those practices generally accepted in the municipal market and the type of risks arising from such debt would not expose the City to a level of legal or financial risk that is above the level of such risks that the City would normally assume in other financing transactions for similar projects.

Debt will be structured to achieve the lowest possible net cost to the City given market conditions, the urgency of the capital project, net revenues expected from the project (if any), and the nature and type of the security provided. Generally, borrowings by the City should be of a duration that does not exceed the economic life of the improvement that it finances and where feasible should be shorter than the projected economic life. Moreover to the extent possible, the City should design the repayment of its overall debt so as to recapture rapidly its credit capacity for future use.

To provide additional debt capacity through relatively rapid retirement of outstanding debt, the City shall set as a goal, to structure total General Fund Net Direct principal retirements, excepting the principal payments on the Pension Obligation Bonds, such that the repayment is on average at least 35% within 10 years and 40% in 15 years.

The City may however choose to structure debt repayment so as to wrap around existing obligations or to achieve other financial planning goals. Such alternative structures shall be subject to the approval of the Debt Management Advisory Committee. (See Article XV)

Policy Transition: The City in Fiscal Year 2010 is currently reducing the Net Direct Debt principal on issuances paid by the General Fund, excepting Pension Obligation Bonds, at a rate of 4.5785% measured from 2010 to 2019. Given the City's current debt paid by the General Fund, the City will not reach consistent compliance with this policy until 2015. The City will make every effort where possible to be in compliance with the target 50% ten year debt reduction.

Section 4. Debt Structure Practices
Debt structure guidelines are as follows:

A. **Standard Terms:** The following terms shall be applied to the City's transactions as appropriate. Individual terms may change as dictated by the marketplace or the unique qualities of the transaction.

1. **All Bonds**

i. *Term*	10 to 30 years is standard, but up to 35 years may be acceptable, depending on cash flow assumptions, construction timeline and remaining useful life of the asset being financed.
ii. *Maximum Yield*	case by case, as recommended by Financial Advisor and as governed by State law.
iii. *Maximum Premium*	case by case, as recommended by Financial Advisor.
iv. *Maximum Discount*	Case by case, as recommended by Financial Advisor.
v. *Payment Dates - Fixed*	After considering cash flow needs, the City Controller will determine the occurrence of all new debt service payments.
vi. *Coupons*	fixed rate or variable
vii. *Call Provisions*	shortest possible optional call consistent with optimal pricing.
viii. *Structure of Debt*	prefer level debt service, but shall be determined on a case-by-case basis, at the discretion of the City Controller and Financial Advisor.
ix. *Debt Service Reserve*	where appropriate, generally the lesser of 10% principal

amount, 125% average annual debt service, 100% maximum annual debt service, by cash deposit, by or surety bond for tax exempt debt. For taxable debt debt service, by cash deposit or surety bond for tax exempt debt. For taxable debt the amount will be determined on a case-by-case basis, at the discretion of the City Controller and the Financial Advisor.

x. *Capitalized Interest* — sized through substantial completion plus a minimum of six months unless other assets are available to be pledged, unless otherwise limited under Federal Tax Law. Liquidated damages of construction contract must include amount of daily debt service. Capitalized Interest should not exceed three years unless determined at the discretion of the City Controller and the Financial Advisor.

xi. *Net Funding* — the project and capitalized interest funds may be funded if investments are secured upon issuance of bonds.

xii. Reimbursement Resolution
Must be adopted by the City Council if the project Capital costs are advanced by the City prior to the expenditure and/or commitment of funds, and bond sale.

xiii. *Budgeting Debt Service* — budget shall be for gross debt service, with only interest earnings on bond funds from the prior year considered.

2. **Variable Rate Bonds:** The City may elect to issue any bonds as variable rate bonds, which are broadly defined to mean daily, weekly, monthly, semi-annual or auction rate.

i. *Purpose* — reduction of net borrowing cost; match of assets and liabilities.

ii. *Max Portfolio Allocation* — no more than 20% of the City's outstanding debt portfolio by fund type shall be in un-hedged short-term paper consistent with policies for underlying debt types.

iii. *Term* — consistent with policies for underlying debt types.

iv. *Maximum Yield* — case by case basis, as recommended by Financial Advisor.

v. *Monitoring* — The City Controller shall monitor all variable rate bonds on a monthly basis and shall determine, from time to time, whether to change modes and/or replace a broker/dealer or remarketing agent.

vi. *Budgeting*	the City Controller will recommend that annual debt service on any variable rate bonds be budgeted at 1.5 times the rolling 3 year average of the Securities Industry and Financial Markets Association (SIFMA), or another relevant index Association index, or another relevant time frame, or as otherwise required by the respective bond covenant.
viii. *Liquidity*	a liquidity facility shall be obtained, either externally or internally, for all short-term indebtedness containing a put feature.
ix. *Mode*	all bonds issued as variable rate bonds shall be issued as "multi-modal" bonds, unless the City Controller in conversation with the Financial Advisor determines otherwise on a case by case basis.
x. *Budgeting Debt Service*	budget shall be 3-year BMA rolling average times 1.5 as well as ongoing fees associated with floating rate bonds.

Section 5. Debt Level and Capacity

A comprehensive and routine analysis of debt capacity provides assurance that the amount of debt required by a municipality is affordable and cost effective. By analyzing debt capacity and establishing appropriate limits on debt issuance based on this analysis, municipalities are better able to keep debt at affordable levels. Establishing the City's debt capacity limits should, in large part, be based on its Capital Improvement Plan (CIP) and the impact of planned debt issuances on the long term affordability of all outstanding debt. Each project incorporated in the five year plan will be compared and evaluated on a cost-benefit basis to determine those projects that best meet the City's policy objectives as defined in the City's five year Capital Improvement Plan.

The Fresno City Charter Section 1213 imposes a 20% limit on general obligation bonding (GO Bonds, of which the City currently has none) where the bonding cannot exceed 20% of the assessed value of all real and personal property within the City. Per the 2008 CAFR report, the current balance on Pension and Judgment Bonds is $187 million. There is no bonding level limit for other types of bonds or any bonding limitation on the City's General Fund.

On Lease Revenue Bonds/Certificate of Participation and similar financing special attention shall be given to the methodology in determining a secure, long term revenue stream to repay the debt and minimize General Fund subsidization of the debt. A conservative strategy will be employed for all bond financing that evaluates City debt level and capacity using the following criteria:

1. Measurement of tax and revenue base
2. Population trends including change in population and demographic trends.
3. Utilization trends for services underlying revenues.
4. The volatility and collection risk of the revenue source identified for repayment of the debt.
5. Evaluation of historical trends relating to the City's financial performance.
6. Debt service obligations including existing and potential debt service requirements.
7. Measure of debt burden on the community or the debt per capita.

8. Market factors affecting interest costs.
9. Market factors affecting future impact fees.
10. Comparative analysis using peer cities to evaluate impact fees revenue stream.
11. Evaluation of stability of federal and state income streams.
12. Evaluation of ability to fund ongoing operations and maintenance costs.

Section 6. Debt Measurement Ratios

The affordability of the incurrence of debt will be determined by calculating various debt ratios that would result after issuance of the debt and analyzing the trends over time. Below are current debt ratios for the City:

Key Debt Ratios Description/Trend		City of Fresno FY 2010 Debt Ratios
Net Debt to Assessed Property Value %		
(Favorable Trend=Lower than 3%)		0.05%
% of Principal Net Direct Debt Retired in Ten Years	GF Backed (2009 – 2010)	-11.4313%
(Favorable Trend = Greater than 35%)	GF Paid (2009 – 2010)	4.5785%
Net Direct Debt Service as % of General Fund Appropriations		
(Favorable Trend = Less than 10%)		6.33%

The City will have quantitative goals relative to direct debt. Direct debt will be measured by the following:

1) Net Debt to Assessed Value shall not exceed 3%;
2) Percentage of Principle on Net Direct Debt Retired in Ten Years shall average 35% and 40% within 15 years; and
3) Net Direct Debt as a percentage of General Fund Appropriations shall be less than 10%

Policy Transition: The City of Fresno will make every effort to comply with the goal of reducing the principal portion its average Net Direct Debt retired. Given the City's current debt paid by the General Fund, the City will reach consistent compliance with this policy goal by 2015.

Section 7. General Fund Net Debt Service Limit

The City will monitor and limit the net debt service being paid from the General Fund. The net debt service is defined as the total annual aggregate lease revenue obligations minus any revenues generated by the debt financed projects to pay this debt service. The ratio of Lease Revenue Bond obligations and Certificates of Participation debt service as a percentage of annual revenue or expenditures. Is referred to as "lease burden". In recent years, nearly all of the major capital projects in the City including the baseball stadium, the Exhibit Hall, the Convention Center, City Hall, fire stations, police substations, No Neighborhood Left Behind, Parks and the police training center were financed using Lease Revenue Bonds. Enterprise Revenue Bonds supported by dedicated revenue

sources and other General Fund obligations including the pension system, retiree health care costs and judgment obligation debt is excluded from the lease burden ratio analysis.

Other government entities with underlying or overlapping direct debt burden including school districts, Fresno County, special districts, and the City Redevelopment Agency issuing tax increment Revenue Allocation Bonds will add to the City's overall debt burden. The City's proportionate share of other government entities that either overlap or underlie is referred to as its overlapping debt. In its disclosure documents, the City shall include a statement of overlapping debt each year.

It shall be the policy of the City to conduct an affordability analysis as determined by the lease burden ratio when any new General Fund supported debt is issued. Credit rating agency guidelines usually recommend a lease burden ratio between 8% to 12%. It shall be the policy of the City to maintain a lease burden ratio not to exceed 10%. The total overall Net Debt Service in the General Fund excluding enterprise Revenue Bonds shall not exceed 10% of General Fund appropriations.

Policy Transition: The current City lease burden ratio is in compliance.

Section 8. Enterprise Debt Limits
The City shall conduct affordability analysis for proposed Enterprise Revenue Bonds issuances. The affordability analysis shall compare projected annual gross revenues less operating and maintenance costs to estimated annual debt service. The ability to afford new debt for enterprise operations will be evaluated as an integral part of the City's rate review and setting process. It shall be the policy of the City to maintain a coverage ratio of 110% using historical and/or projected net revenues to cover annual debt service. Ratios higher than 110% will only be maintained if required by bond covenants of debt issuance. It shall be the policy of the City to require a rate increase to cover both operational and maintenance costs and debt service costs, and create debt service reserve funds to maintain the required coverage ratios.

Policy Transition: The City is currently in compliance with the above stated policy goals.

Section 9. Variable Rate Debt
The City may elect to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities, consistent with state and federal law and covenants of pre-existing bonds, and depending on market conditions. The City will have no more than 20% of its outstanding debt in variable rate form.

Policy Transition: The City currently has no variable rate debt and is in compliance with the above stated policy.

Risk mitigation factors used to determine the appropriate amount of variable debt will include 1) the historic average of cash balances over the course of several prior fiscal years; 2) projected cash flow balances on known demands on a given fund and on City fund balance policies; and 3) the difference in the performance or duration of the City's investment vehicles compared to the variable rate debt instrument to be used by the City.

ARTICLE III
ASSET LIFE

The City will consider the use of debt for the acquisition, development, replacement, maintenance, or expansion of an asset only if it has a useful life of at least five years. For short term financing, the

physical asset must have a minimum useful life of five years and for long term financing the physical asset must have a minimum useful life of ten years. Debt will not be issued for periods exceeding the useful life or average useful lives of the project or projects to be financed. This section shall not apply to approved Master Lease Purchase program assets.

ARTICLE IV
METHODS OF FINANCING

The City shall consider several methods of financing capital projects as determined in the Capital Improvement Plan. This policy will set forth guidelines for these decisions by indentifying parameters within each funding source that are considered appropriate. These parameters are defined below.

Section 1. Cash Funding
It shall be the policy of the City to encourage funding capital projects with cash, on a "pay as you go" basis, to the extent possible and practical. As part of a "pay as you go" strategy, the City will first look for grant funding for capital projects. Cash funding is recommended to 1) finance purchases of assets whose lives are shorter than five years; 2) when market conditions are unstable or present difficulties in achieving acceptable interest rates; and 3) existing debt levels might have an adverse impact on the City's credit rating.

Section 2. Capitalized Interest.
Certificates of Participation (COP) and other lease-secured financings may require the use of capitalized interest from the issuance date until the City has beneficial use and occupancy of the financed project. It shall be the policy of the City that interest shall not be funded (capitalized) beyond a period of three and one half 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.

Section 3. Short Term Financing

A) Tax and Revenue Anticipation Notes (TRANs)
Tax Revenue Anticipation Notes are short-term notes (line of credit), the proceeds of which allow the City to cover the periods of cash shortfalls resulting from a mismatch between timing of revenues and timing of expenditures. The City annually issues TRANs each July to meet General Fund cash flow needs, in anticipation of the receipt of tax revenues later in the fiscal year.

The cash flow needs are determined by projections prepared by the City Controller, working with the City Budget Director. The timing of the note sale, the notes' due date, and the timing and structuring of repayment will be components of the cash flow and cash management analysis performed by the Department of Finance. As tax payments and other revenues are received, they are used in part to repay the TRANs. Charter Section 1210 reads, "Money may be borrowed in anticipation of the receipts from taxes during any fiscal year, by the issue of notes, Certificates of Indebtedness or Revenue Bonds; but the aggregate amount of such loans at any time outstanding shall not exceed twenty five percent (25%) of the receipts from taxes for the fiscal year in which they are issued."

B) Commercial Paper
The City may choose to issue tax-exempt or taxable commercial paper as a source of interim borrowing/financing for projects contained in the City approved CIP only after the City Controller

determines that such financing represents the least cost interim financing option for the City. Commercial paper will not be issued for City capital programs unless it is of sufficient economic size as determined by the City Controller and subject to constitutional and local law limitations on multi-year debt.

C) Bond Anticipation Notes

Bond Anticipation Notes (BAN's) are used as interim financing instruments. They can be used instead of Capitalized Interest to reduce the debt service during construction period of a project or facility, and are subject to constitutional and local law limitations on multi-year debt.

D) Lines of Credit

The City can consider Lines of Credit (LOC) as an alternative to other short term borrowing options. The City Controller shall determine when it is financially prudent for the City to enter into agreements with commercial banks or other financial institutions for the purposes of acquiring a Line or Letter of Credit.

Section 4. Long Term Debt Financing

Long-term borrowing shall be confined to capital investments or similar projects with an extended life when it is not practical to be financed from current revenues. The City shall not use long-term debt to finance current operations. Long-term general obligation debt shall be utilized when necessary to acquire land or capital assets based upon a review of the ability of the City to meet future debt service requirements. The project to be financed should also be integrated with the City's long-term financial plan and Capital Investment Program (CIP) with an assessment of the need and priority of the capital improvement project. Listed below are long term financing options:

A) General Obligation Bonds

Voter approved General Obligation Bonds (GO) provide the lowest cost of and provide a new and dedicated revenue source in the form of additional ad valorem taxes to pay debt service. California State Constitution, Article 16 - Public Finance, Section 18, requires that the issuance of a GO bond must be approved by a two-thirds majority of those voting on the bond proposition. Uses of bond proceeds are limited to the acquisition and improvement of real property.

B) Lease Revenue Bonds

Lease Revenue Bonds (LRB's) are be used to finance capital projects that either 1) have and identified budgetary system for repayment; 2) generate project revenue but rely on a broader pledge of General Fund revenues to reduce borrowing costs; and 3) finance the purchase of real property and the acquisition and installation of equipment for the City's general government purposes. LRB's are secured by a lease-back arrangement between the City and another public entity. The general operating revenues of the City and/or a designated special fund are used to pay the lease payments, which are, in turn, used to pay debt service on the LRB's. LRB's do not constitute indebtedness under the state constitution and are not subject to voter approval.

C) Revenue Bonds

Revenue Bonds finance water, wastewater utilities, public golf courses, airports or public facilities. They are payable by the revenues generated by the enterprise. This type of debt is considered self-liquidating. The City's utility Revenue Bonds are payable solely from the City's Department of Public Utilities enterprise funds and are not secured by any pledge of ad valorem taxes or General Fund revenues of the City. Bond covenants provide that revenues generated by these enterprise funds must be sufficient to maintain required debt coverage levels, or the rates of the enterprise have to be raised to maintain the coverages and operations of the facility.

D) Certificates of Participation

Because Certificates of Participation (COP's) are not created by statute, but rather are used to securitize an underlying contract, they can be adapted to a number of financing situations. They are commonly used for both lease revenue and enterprise revenue financings where no workable statutory framework is available. Because of the authority provided for financing by the City Charter, the City has made minimum use of Certificates of Participation. To the extent they are considered in the future, the relevant policy requirements for lease or enterprise Revenue Bonds will prevail. COP's do not constitute Indebtedness under the state constitution are not subject to voter approval.

E) Capital Lease Debt

A lease purchase obligation placed with a lender without the issuance of securities may be used to finance certain vehicle and equipment purchases when the aggregate cost of equipment to be purchased exceeds $50,000. In rare instances, acquisitions below $50,000 may be deemed to be clearly cost effective and in the City's best interest. At the discretion of the City Controller, these transactions will be evaluated on a case-by-case basis.

Efforts will be made to fund capital equipment with pay-as-you-go financing where feasible, and only the highest priority equipment purchases will be funded with lease obligations. All equipment with a useful life of less than five (5) years shall be funded on a pay-as-you-go basis except for fiscal emergencies as determined by the Mayor and affirmed by a majority vote of the City Council. Adequate funds for the repayment of principal and interest must be included in the requesting department's approved budget. The term of short term financing shall be limited to the useful life period of the vehicle or equipment, but in no case shall exceed 10 years. This section shall not apply to approved Master Lease Purchase program assets.

F) Debt Derivatives

Debt derivatives are hybrid financial instruments associated with variable debt. The City will consider the use of derivative products on a case by case basis and consistent with state and federal statutes and financial prudence. Derivative products may be used by the City to reduce risk exposures or reduce interest costs, but may not be used for speculative purposes.

The only type of derivative instrument used by the City will be structured (step up) notes, and floored floater notes, which guarantee coupon payments. These are minimal risk instruments. It shall be the policy of the City to carefully evaluate debt derivative instruments using conservative criteria and limit the use of debt derivative financial instruments.

G) Conduit Debt

Conduit financing are securities issued by a government agency to finance a project of a non-governmental third party, such as a non-profit organization or other private entity. The City may sponsor conduit financings for those activities (e.g. economic development, housing, etc.) that may 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 financing will not in any way pledge the City's credit. While the City issues the conduit Revenue Bonds on behalf of qualified non-governmental organizations, repayment of the debt is secured solely by the non-governmental organization and no appropriation will be made in the event of a default. No City funds shall be pledged to support the conduit debt and no appropriation will be made in the event of a default of conduit debt.

The City's preference is to assist non-profit organizations in securing conduit financing through agencies such as California Statewide Community Development Authority. California Communities and other agencies can assist 501(c)(3) non-profit organizations by providing access to low-cost, tax-exempt bonds ("Bonds") to finance or refinance the acquisition, construction, installation, expansion or rehabilitation of land, buildings, and equipment. A 501(c)(3) non-profit organization can finance projects at a lower interest rate than conventional financing because the interest paid to bondholders is exempt from federal (and in some instances state) income taxes. The role of the City in these instances is to hold a "TEFRA" hearing. This acronym stands for the Tax Equity and Fiscal Responsibility Act of 1982. This Act requires the local legislative body of the local agency in which the project is located to notice and conduct a public hearing. Applications for a TEFRA hearing are made to the Controller acting as the City's Debt Administrator, who will schedule the matter for Council's consideration. The Controller will prepare a staff report on the policy considerations associated with the project or its financing. The Council holds this hearing and calls for any public testimony regarding the proposed project financing. When the bonds are issued by a non-City agency it will be understood by any market participant that the City has no obligation or liability associated with the project or the financing. The applicant however is able to obtain favorable debt financing and the City has no exposure or risk.

H) Judgment Obligation Bonds

Judgment Obligation Bonds will be considered for unusual non-recurring court judgments. The bond maturity will be limited to 10 years to demonstrate the willingness of the City to repay such obligations in a reasonable time frame. Principal amortization will be appropriate for the particular transaction. At the discretion of the City Controller, bond maturity can be extended beyond 10 years based on excessive awards exceeding $10 million.

I) Pension Obligation Bonds

The City may elect to fund accrued pension liabilities through the issuance of Pension Obligation Bonds (POB's) rather than funding such obligations on a pay-as-you go basis. POB's are issued as taxable instruments over a 15-30 year term by matching the term with the amortization period of the outstanding unfunded actuarial accrued liability. POB's will undergo an active validation process prior to the sale of the bonds and are not subject to voter approval. The authority to issue POB's without a vote is found in a judiciary created exception to the California State Constitution, Article XVI, Section 18. POB's are a general obligation of the City. It shall be the policy of the City to limit the term of POB's to not exceed 30 years.

POB's allow the City the opportunity to borrow at a rate that is lower than the assumed actuarial rate used to project the unfunded actuarially accrued liability (UAAL). The assumed actuarial rate is used to project the investment rate to be earned on the proceeds of the POB and the investment rate payable on the UAAL. POB's will be considered by the City when the issuance is clearly cost effective and in the City's best interest.

J) Mello-Roos and Assessment Bonds

The Mello-Roos Act of 1982 allows any county, city, special district, school district or joint powers authority to establish a Mello-Roos Community Facilities District (CFD) which allows for financing of public improvements and services. These CFD special taxes must be approved by a two thirds vote of registered voters within the district (unless there are fewer than 12 registered voters, in which case the vote is by landowners), and are secured by a special tax on the real property within the district. These types of obligations, although repaid through additional special taxes levied on a

discrete group of taxpayers, constitute overlapping indebtedness of the City and have an impact on the overall level of debt affordability.

The City also may issue assessment bonds through a special benefit assessment district. These bonds, based on assessments levied proportionate to special benefit conferred, are subject to a majority notice/protest hearing requirements. The bonds may be issued to finance facilities or provide services with this district.

It shall be the policy of the City to not use the General Fund to financially support assessment or Mello-Roos obligations. (See also separate Mello-Roos Community Development Facility Policy).

K) Tax Allocation Bonds

Using tax increment funds as a pledge for repayment, the Redevelopment Agency may issue Tax Allocation Bonds. Careful consideration must be taken by the Redevelopment Agency when issuing these bonds, to ensure that the revenue source is not already pledged to some other encumbrance, such as HUD loans.

Under California State Law, the City of Fresno Redevelopment Agency has the authority to issue Tax Allocation Bonds as a means of financing redevelopment projects. It shall be the policy of the City to not use the General Fund to financially support redevelopment obligations.

L) Capital Appreciation Bonds

Capital Appreciation Bonds (CAB's) are deep discount bonds that pay investors the face value of the bond upon maturing. CAB's are primary used is to better match a project's cash flow to the bond's debt service. However the City has not used this form of debt financing in the past as capital appreciation or to improve the marketability of the bonds, which allow the Issuer to defer payment of interest until redemption, would sell at yields higher than those for current interest bonds with similar maturities. The City's use of Capital Appreciation Bonds may be a market driven decision as determined by the City Controller and Financial Advisor.

M) US HUD Section 108 Loans

HUD Section 108 loans are administered by the City's Housing Department. These loans will be structured to be sound loans to assist in economic development projects. In addition, Section 108 loans will also be structured to provide sufficient guarantees so that if the loan is in default, the General Fund would be the payment of last resort. The Section 108 loan program requires that future Community Development Block Grant (CDBG) funding, and if requested, additional specified collateral be used as first security for payment.

N) Interfund Borrowing

The City may borrow internally from other funds with temporarily surplus cash to meet short-term needs in lieu of issuing debt. Such purposes could include short-term cash flow imbalances due to grant terms (i.e., the need to incur costs prior to reimbursement) and interim financing pending the issuance of bonds. The City funds from which the money is borrowed shall be repaid with interest, accruing monthly based upon the average earnings rate of the City's investment pool. To the extent any interfund borrowing is undertaken as a form of bond anticipation financing, the City will adopt a resolution of its intention to repay such funds out of tax-exempt bond proceeds, so as to meet the requirements of federal tax law for such borrowings.

Any borrowing between two City funds(or the Redevelopment Agency (RDA)), with the except of the temporary advances described above (which excludes the RDA), and which exceed more than 24 months, will require a written and signed loan agreement between the funds including a

repayment schedule with interest paid at the current investment pool rate and with a maximum repayment term of five years. Interfund loans will be evaluated on a case by case basis. The purpose of Inter Fund borrowing is to finance high priority needs and reduce costs of interest, debt issuance, and/or administration.

ARTICLE V
FUNDING SOURCE MATRIX

The matrix below illustrates a reference source for funding debt policies:

PARAMETERS	Cash	TRAN's Loans	BAN's	Capital Lease Bond	Revenue Bond	Short Term Loan	Long Term Loan
Matching cash shortfalls between revenues & expenses		X	X				
Project life is less than 5 years	X					X	
Project life is greater than 10 years				X			X
Recommended temporary funding before bond sale			X			X	
Recommended variable rate funding mechanism						X	
Voter Approved General Obligation Bond							X
Financing public Utilities projects					X		X
The amount borrowing is less than $5 million						X	
The amount borrowing is greater than $10 million				X	X		X

ARTICLE VI
SERVICE PROVIDER SELECTION AND COMPENSATION

All financial advisors, bond counsel, disclosure counsel, trustees and underwriters will be selected through a Request for Proposal (RFP) or a Request for Qualifications (RFQ) process based on the circumstances. The RFP/RFQ process will be conducted by the Department of Finance and City Attorney's Office, as appropriate. The City's contracting policies will apply to all contracts with finance professionals, as permitted by state and federal law. Once the financial advisor is selected, the financial advisor will assist the City in the selection of other service providers, including underwriters, trustees, escrow agents, credit enhancers, verification agents, title insurance companies, and financial printer.

Section 1. City Financial Professionals Team

A) **Financial Advisors**: The City shall utilize the services of independent financial advisor(s) on debt financing when deemed prudent by the City Controller. Services and compensation caps shall be defined by contract. The primary responsibilities of the Financial Advisor are to advise and assist on bond document negotiations, transaction structuring including advising on call provision options and timing of issuance, running debt service cash flow numbers, obtaining

ratings on the proposed issuance, and generally acting as an independent financial consultant and economic market expert.

B) **Underwriters**: In the case of a competitive sale, the City will award the bonds to the underwriting firm whose bid results in the lowest True Interest Cost. In the case of a negotiated sale, the Finance Director, once every five years or as needed, and/or modified will determine the best method of selection, taking into consideration all factors involved in each particular sale, using an RFP process to develop a pool of qualified underwriters.

C) **Bond Counsel:** The City Attorney's office will take the lead in selecting bond counsel, and the Finance Department will take the lead in selecting disclosure counsel if needed, through an RFP process. Underwriter's Counsel is generally selected by the lead underwriter, with the consent of the City Controller, on a case-by-case basis. Generally, Underwriter's Counsel takes the lead in preparation of the Official Statements and certain closing documents related to the bond sale. Bond Counsel responsibilities will include preparing the necessary authorizing resolutions, ordinances, agreements and other legal documents necessary to execute the financing. All debt issued by the City will include a customary approving legal opinion of Bond Counsel.

D) **Broker-Dealers and Remarketing Agents**: For variable rate bonds, the City Controller shall select broker-dealers or remarketing agents for each transaction through the RFP process. The City shall monitor performance on a monthly basis. The City may replace a remarketing agent or broker-dealer with notice at any time, consistent with the financing documents.

E) **Trustees**: Trustees will be selected for each transaction or program by RFP, unless use of the current trustee is deemed in the City's best interest by the City Controller. The Trustee (or applicable holding company) shall have a combined capital and surplus of at least $50 million and be subject to supervision or examination by federal and state authorities.

F) **Rebate Consultant**: Selected by RFP or approved competitive process for all bonds for a set term with 1-year extensions.

G) **Auction Agents**: Selected for each relevant issue by RFP or approved competitive process issued by the Finance Department or its agent and subject to negotiation of terms.

H) **Liquidity Providers**: Selected for each relevant issue by RFP or approved competitive process issued by the Finance Department or its agent and subject to negotiation of terms.

I) **Investment Agreement Counterparties**: Selected by bid in compliance with Federal Tax Law Requirements in accordance with relevant financing documents and the City's Investment Policy.

1. In general, uncollateralized Investment Agreements shall be executed with counterparties rated at least AAA with collateral required upon downgrade below AAA.
2. Repurchase Agreements or Forward Delivery Agreements shall be executed with counterparties rated at least AA (by at least one of the major rating agencies) with downgrade provisions requiring assignment or collateral should the rating fall below A- or A3 by Standard and Poor's or Moody's Investor Services respectively.

J) **Financial Printer**: Selected for each issue by RFQ or approved competitive procees. This vendor will be responsible for printing all financial documents.

Section 2.Compensation for Services

Compensation for bond counsel, underwriter's counsel, financial advisors, and other financial services will be as low as possible, given desired qualification levels, and consistent with industry standards. The costs of service providers will be included in the cost of issuance and paid from bond proceeds. The ongoing trustee fee for a bond issuance will be budgeted under administration costs and appropriated in respective bond payment accounts or may be included in cost of issuance.

ARTICLE VII
DEBT ADMINISTRATION AND DISCLOSURE

Section 1. Ongoing Debt Administration and Disclosure

It is the goal of the Department of Finance and the City to provide disclosure and transparency.

A) **Comprehensive Annual Debt Report**: The City will provide its Comprehensive Annual Debt Report using its best efforts to issue the Comprehensive Annual Debt Report (CADR) as soon as practical following the issuance of the City's Annual Comprehensive Annual Financial Report (CAFR). The City will also use its best efforts to issue notices of material events electronically by means of Electronic Municipal Market Access (EMMA) site maintained by the Municipal Securities Rulemaking Board (MSRB) and to post the link to the EMMA site on the City's web site. The Comprehensive Annual Debt Report will also be on the City's website and filed with the City Clerk. (See also Article XVI – Annual Debt Report)

B) **Material Event**: The City will issue a material event notice in accordance with the provisions of SEC Rule 15c2-12 and will provide a link on the City of Fresno Website to these reports.

C) **Voluntary Disclosure**: The City will covenant to provide annual disclosure for all short-term indebtedness with a stated maturity greater than three years. The Budget Director shall submit 3, 6, 9 and 12 month budget status reports to the Mayor and City Council within one month following the close of the quarter or annual financial statements. Proposed Budget and Adopted Budget including associated Annual Appropriation Resolutions, and Comprehensive Annual Financial Report (CAFR) will be submitted to the Nationally Recognized Municipal Securities Information Repository (NRMSIR) as soon as practical. The City will also take additional efforts to make information available to investors and the public through its web site and the City Clerk's Office.

D) **Official Statements**: The Official Statement shall contain a summary of the continuing disclosure obligations, which may exceed obligations enumerated in Rule 15 (c) 2-12 Section 2. Arbitrage Compliance. The City Controller shall maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of federal tax code. The City shall calculate arbitrage annually each year that the related project funds (or equivalent) haves had an outstanding balance. Thereafter, the City shall calculate arbitrage on the fifth anniversary of the bond issuance in accordance with IRS recommended practices, unless bond documents require otherwise or the previous calculation resulted in a positive liability. The City Controller may elect to engage an arbitrage consultant to prepare calculations required by the Internal Revenue Service.

Section 2. Insurance Certification: The City (through its Risk Manager) shall provide annual insurance certification to the Trustee and Bond Insurer on Lease Revenue and COP financings as long as the bonds are outstanding.

ARTICLE VIII
METHOD OF SALE

Section 1. Competitive and Negotiated Sale
The two primary methods of issuing debt obligations are 1) a competitive sale or 2) a negotiated sale.

A. Competitive Sale: When circumstances permit, a competitive sale, underwriters submit sealed bids and the underwriter or underwriting syndicate with the lowest True Interest Cost (TIC) is awarded the sale. The bidder's role is limited to the review of the offering circular released by the City, making credit assessment based on the facts presented in the offering circular, and offering its bid per the bidding parameters established by the City.

B. Negotiated Sale: In a negotiated sale, the underwriter or underwriting syndicate is selected through a Request for Proposal (RFP) process. The interest rate and the underwriter's fee are negotiated prior to the sale, based on market conditions. The underwriter will actively assist the City in structuring the financing and marketing the bonds including providing assistance in preparing the bond offering circular.

Section 2. Public Offerings, Private Placement and Other Types of Placement

A. Public offerings: Public offerings can be executed through either a competitive sale or a negotiated sale. It shall be the policy of the City to issue debt through a competitive sale whenever feasible. Using a competitive sale will usually produce results in the lowest cost of borrowing to a high rated issuer like the City.

In a public offering, the notice inviting bids will be carefully constructed so as to ensure the best possible bid for the City, relative to existing market conditions and other salient factors. Parameters to be examined include:

1. Limits between the lowest and highest coupons;
2. Coupon requirements relative to the yield curve;
3. Method of underwriter compensation-discount or premium coupons;
4. Use of true interest rate (TIC) versus net interest rate (NIC);
5. Use of bond insurance/other credit enhancements;
6. Deep discount bonds;
7. Variable rate bonds; and
8. Call and Redemption provisions.

The decision on whether to use a competitive sale or a negotiated sale shall be based on the following criteria: Market Familiarity; Credit Strength; Policy Goals; Type of Debt Instrument; Issue size; and Market Conditions.

B) Private Placement: From time to time the City may elect to privately place its

debt. Such Placement shall be considered if other methods are not viable. Private placement is a variation of a negotiated sale. Instead of retaining the services of an investment banking firm to underwrite the securities, the City will sell the bonds directly to a limited number of investors. The City may use a placement agent to assist it in identifying likely investors.

C) Other Types of Placement: Certain types of financing do not lend themselves to a competitive process including variable rate debt, commercial paper, and specialized financing like Mello-Roos and are used on a private offering basis. With this type of financing, the City will provide a competitive process to choose the appropriate underwriter and financing team to ensure the most qualified firms are engaged.

ARTICLE IX
BOND RATING, COMMUNICATIONS AND SELECTION

Section 1. Bond Rating and Communications

The policy of the City is to secure underlying ratings on all newly issued obligations from at least one national ratings agency. The Finance Department shall communicate with each rating agency that rates City debt issues periodically. The City Controller will prepare a Comprehensive Annual Debt Report to the Mayor and City Council assessing the City's strengths and weaknesses as perceived by credit analysts. Any changes in rating will be promptly noticed to the Mayor and the City Council. The Department of Finance shall deliver to each of the rating agencies the following documents: 1) Annual CAFR and 2) Proposed or Adopted Annual Budget, depending on the time of the year and various other relevant documents and/or communication needed by them to secure a credit rating. The Department of Finance shall also report Certificates of Substantial Completion on projects financed with long term obligations to rating agencies and bond insurers, as needed or if requested..

Section 2. Bond Selection

The Finance Department shall evaluate the appropriate bond selection of Serial vs. Term Bonds which may be dictated by market conditions. Serial Bonds are bonds maturing annually or serially in specified amounts. Term bonds are those where all bonds, or a portion of the issue equal to that which would mature over a period of two or more years in a bond issuance, mature at a single time. Term bonds can be structured so that a portion of term maturity is mandated to be called or retired each year (called "sinking funds') to mirror a serial bond structure. The funds paid into the sinking fund each year may be used at that time to retire a portion of the term bonds ahead of their scheduled redemption. Sinking funds are preferred by investors since these funds provide the security of knowing that the issuer appropriately budgets and accounts for the expected future payments. The sinking fund also ensures that the payment of funds at maturity does not overtax the issuer's resources at the time.

Capital Appreciation Bonds (CAB's) are deep discounted bonds that pay investors face value of the bond upon maturing. For each instance, the City will select serial bonds or term bonds, or both. On occasions where circumstances warrant CAB's, CAB's will be used. The decision to use term, serial, or CAB bonds is usually driven by market conditions.

ARTICLE X
REFUNDING/REFINANCING POLICIES

The City will monitor and periodically review and evaluate all outstanding debt to determine if refunding/refinancing opportunities exist. Refunding/refinancing is undertaken to take advantage of lower interest rates to achieve cost savings. Savings will be analyzed on a present value basis by

using either a percentage of maximum call option value or a percentage of the refunded par amount. All costs and benefits of the transaction will be taken into account.

Refunding/refinancing will be considered if and when there is a net economic benefit of the transaction or the transaction is essential in order to update covenants to improve operations and management. Other benefits of refunding include restructuring debt to free up reserves or release from onerous trust covenant conditions.

A present value analysis will be prepared to identify the economic effect of any proposed refunding/refinancing. To proceed with a refunding/refinancing, either of two methodologies may be used to analyze the targeted savings. The first is that a minimum of 90% of the maximum call option value should generally be achieved. The City Manager will have the final discretion to recommend individual refunding candidates above or below the target to optimize the City's financial objective. Alternatively, the second method that may be used is the more traditional methodology of measuring the net present value savings as a percentage of the refunded par amount with a minimum average savings on an advance refunding for economic savings when a net present value savings are at least five percent (5%) of the refunded debt and three percent (3%) on a current refunding can be achieved. Exceptions will be made only upon the approval of the City Controller.

Policy Transition: Applies to all current debt and any refunding considerations.

The City will use the following analytical tools when reviewing potential refunding candidates: net present value savings as a percent of refunded par; graduated net present value savings as a percent of refunded par; opportunity cost indexing, and refunding efficiency. Refunding with negative savings will not be considered unless there is a compelling public policy objective.

ARTICLE XI
INVESTMENT OF BOND PROCEEDS

All bond proceeds shall be invested consistent with the City's Investment Policy and the financing documents. Investment of proceeds and records thereof will be structured to comply with the arbitrage rebate compliance requirements of the federal tax code.

ARTICLE XII
CALL OPTIONS AND REDEMPTION PROVISIONS

Call options or optional redemption provisions enable a municipal issuer to partially or totally repay a bond issue before its stated maturity. Redemption provisions are the conditions under which bonds can be called or redeemed. Bonds can be called at the option of the issuer or must be called if certain special conditions occur (mandatory or extraordinary redemptions). The special redemption provisions are outlined in the Official Statement. In the current market, most 30 year tax exempt municipal bonds are structured with a 10 year call at no premium.

The City can exercise a call option to achieve interest savings in the future through refunding of bonds. Market professionals measure the cost of the option by the yield spread (yield differential, referred to as the option-adjusted-yield) between callable bonds and non-callable bonds. It is not uncommon for a city to pay a higher rate of interest as compensation to the buyer for the risk of having the bond called in the future. The cost of call options will vary depending upon market conditions and an assessment of the following issues: 1) the call premium; 2) the coupon structure of the original offering (i.e. sold with premium or discount; 3) level of rates relative to historical trends; 4)

the time until the bonds may be called at a premium or at par; and 5) interest rate volatility. The City Controller will evaluate and recommend the use of a call option, if needed, and the call protection period of each issuance.

It shall be City policy for call provisions for bonds to be made as short as possible consistent with the lowest interest cost to the City. When possible, all bonds should be callable only at par.

ARTICLE XIII
CREDIT ENHANCEMENTS

The City shall use credit enhancement (letters of credit, bond insurance, surety bonds, etc.) when such credit enhancement proves cost-effective. The City Controller will recommend the use of credit enhancement if it reduces the overall cost of the proposed financing. The City will consider the use of credit enhancement on a case by case basis, evaluating the economic benefit versus the cost of each case. This analysis will be undertaken to determine anticipated cost-effectiveness to both the first optional call date and to maturity. Only when a clearly demonstrable savings can be shown shall credit enhancement be considered. The city will consider the following enhancements as alternatives by evaluating the cost and benefit of each enhancement.

Section 1. Letter of Credit: May be obtained from a major bank for a fee to enhance the credit rating. This letter is an unconditional pledge of the bank's credit to guarantee principal and interest payments on the City's debt in the event insufficient funds are available to meet a debt service obligation.

Section 2. Bond Insurance: The City shall have the option to purchase bond insurance if such a purchase provides a financial gain for the City. The primary factor in this evaluation will be if the insurance is less costly than the present value of the difference in the interest rate on insured bonds versus uninsured bonds.

ARTICLE XIV
DEBT MANAGEMENT ADVISORY COMMITTEE

An advisory committee composed of the City Controller, the City Budget Director, the City Manager a City Council member appointed by the Council President and a private citizen appointed by the Mayor, shall form the committee. The committee shall meet annually or as needed (such as once per quarter when debt issuance during the fiscal year is frequent) to review and evaluate City debt related issues. The City Attorney's office shall advise the debt management advisory committee and use outside counsel as needed. The Committee may also choose, at its discretion, to have the City's Financial Advisor or other professionals attend meetings as they deem necessary. This committee will be subject to Brown Act compliance including posted agendas. It will also be subject to conflict disclosure requirements and CAO approval of governing documents.

ARTICLE XV
ANNUAL DEBT REPORT

The City Controller shall prepare a Comprehensive Annual Debt Report on City debt financing and present it to the City Council immediately following the completion of the Comprehensive Annual Financial Report or as soon as feasible and preferably prior to the Mayor submitting his/her proposed

budget. This report will describe any known bond issues planned for the coming fiscal year and will describe bonds issued during the past fiscal year and up to and including the date of the report. The report shall also provide historical and projected information on debt, including debt capacity and debt service analysis. The report will cover all forms of City debt financing, including General Fund debt, enterprise fund debt and debt guarantees.

ARTICLE XVI
SUPER MAJORITY VOTE

Subject to the provisions of the City Charter, from and after the effective date of the enabling resolution, all debt financing decisions not contained in the adoption of the Annual Budget by the City Council, and where consistent with applicable governing documents, its financing authority(ies), for total par shall be by a super majority vote of five votes to pass the debt issuance approval.

ARTICLE XVII
TRANSPARENCY

The City is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, City Departments and agencies, other levels of government, and the general public to share clear, comprehensible, and accurate financial information. All relevant financial information and reports related to bond issuance shall, consistent with applicable law, will be available for public viewing at the City's website via a link to the Electronic Municipal Market Access (EMMA) site maintained by the MSRB.

ARTICLE XVIII
REVIEW OF DEBT MANAGEMENT POLICY

One year from the passage of this resolution and for the following two years, the City Council shall meet at regularly scheduled public session to evaluate the provisions of this resolution. The City Council will determine if any modifications are necessary based on the actual experience in the previous year.

ARTICLE XIX
EFFECTIVE DATE

This resolution shall take effect upon its final adoption.

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CLERK'S CERTIFICATION

STATE OF CALIFORNIA)

COUNTY OF FRESNO) ss.

CITY OF FRESNO)

I, REBECCA E. KLISCH, City Clerk of the City of Fresno, certify that the foregoing resolution was adopted by the Council of the City of Fresno, at a regular meeting held on the _____ day of _____, 2009.

AYES :

NOES :

ABSENT :

ABSTAIN :

Mayor Approval: _____, 2009

Mayor Approval/No Return: _____, 2009

Mayor Veto: _____, 2009

Council Override Vote: _____, 2009

REBECCA E. KLISCH, City Clerk

BY:_____

Deputy

APPROVED AS TO FORM:

CITY ATTORNEY'S OFFICE

BY:_____