City of Moreno Valley
FINANCE SUBCOMMITTEE
April 23 ♦ 3:45 P.M.

<u>Meeting Location:</u>
Council Chamber
14177 Frederick St.
Moreno Valley, 92553

AGENDA

1. Call to Order / Introductions

2. Public Comments

   (There is a three-minute time limit per person. All remarks and questions shall be addressed to the presiding officer or to the Finance Subcommittee of the City and not to any individual subcommittee member, staff member or other person.)

3. Approval of Minutes from March 26, 2024 meeting

4. <u>Action Items</u>

   A. ANNUAL REVIEW OF THE DEBT MANAGEMENT POLICY

   B. ANNUAL STATEMENT OF INVESTMENT POLICY

5. <u>Advisory Items</u>

   A. ADOPTION OF RESOLUTION TO ESTABLISH A PROJECT LIST FOR FISCAL YEAR 2024/25 SENATE BILL 1 FUNDING FOR CITYWIDE PAVEMENT REHABILITATION AND PRESERVATION (RESO NO.2024-XX)

   B. UPDATE OF FY 2024/25 FIXED CHARGES FOR SPECIAL FINANCING

6. Chief Financial Officer Comments

   A. Next Finance Subcommittee Meeting: May 28, 2024

   B. Future meetings on the Fourth Tuesday of each month at 3:45 p.m.

7. Council Member Comments

8. Adjournment

Upon request, this agenda will be made available in appropriate alternative formats to persons with disabilities, in compliance with the Americans with Disabilities Act of 1990. Any person with a disability who requires a modification or accommodation in order to participate in this meeting should direct such requests to the ADA Coordinator, at 951.413.3350 at least 72 hours before the meeting. The 72-hour notification will enable the City to make reasonable arrangements to ensure accessibility and participation in this meeting.

Report to City Council

TO:	Mayor and City Council
FROM:	Launa Jimenez, Chief Financial Officer/City Treasurer
AGENDA DATE:	May 21, 2024
TITLE:	ANNUAL REVIEW OF THE DEBT MANAGEMENT POLICY

RECOMMENDED ACTION

Recommendation:

1. Review and approve the Debt Management Policy.

SUMMARY

This report recommends the review and approval of the Debt Management policy. On September 12, 2016 Governor Brown signed Senate Bill 1029, Hertzberg, amending the Government Code to require issuers of public debt in California to have an adopted debt management policy. The City of Moreno Valley has recognized that having a Debt Policy in place is a best practice and first adopted a policy in 2006. Every year staff reviews the policy to industry standards. There are currently only minor revisions proposed to the policy as part of this annual review.

DISCUSSION

Debt management policies are considered a "best practice" by many professional municipal finance organizations including the Government Finance Officers Association, the California Society of Municipal Finance Officers and the Association of Public Treasurers of the United States and Canada. Issuers of public debt within California are now required to have an adopted Debt Policy to participate in the financial markets.

The Debt Management Policy was originally developed in 2006 and revised in 2014, 2017, 2019, 2020, 2021 and 2023. In recent years additional requirements have been placed on the issuers of municipal securities based on the input from oversight agencies such as the Securities & Exchange Commission (SEC), the Municipal Securities Rulemaking Board (MSRB), the California Debt and Investment Advisory Commission, rating agencies and investors.

There are only minor revisions being recommended to the current policy at this time. Should any new significant developments occur in the regulatory environment, the policy will be adapted to meet these changes and will be brought back for review by the City Council at that time.

The Debt Management Policy was scheduled to be reviewed with the Finance Subcommittee at their meeting on April 23, 2024.

ALTERNATIVES

1. Approve Debt Management Policy. *This alternative is recommended so that the City's policies and practices conform to the current debt management standards as established by municipal market oversight agencies.*

2. Not approve Debt Management Policy and provide staff with additional direction. *This alternative is not recommended since it will result the delay of the review and adoption of the policy and could result in the City being out of compliance with state laws.*

FISCAL IMPACT

No current fiscal impact.

NOTIFICATION

Public Notice

PREPARATION OF STAFF REPORT

Prepared By:
Kimberly Ganimian
Deputy Finance Director

Department Head Approval:
Launa Jimenez
Chief Financial Officer/City Treasurer

CITY COUNCIL GOALS

None

CITY COUNCIL STRATEGIC PRIORITIES

1. **Economic Development**
2. **Public Safety**
3. **Library**
4. **Infrastructure**

5. **Beautification, Community Engagement, and Quality of Life**
6. **Youth Programs**

ATTACHMENTS

To view large attachments, please click your "bookmarks" on the left hand side of this document for the necessary attachment.

1. Debt Management Policy – 5.21.24

DEBT MANAGEMENT POLICY

Purpose: The following debt policies were developed in an effort to standardize and rationalize the issuance and management of debt by the City of Moreno Valley and its component units. The policies apply to all direct debt issued by the City of Moreno Valley, including leases, debt guaranteed by the City, and revenue bonds issued by the City. The policies also apply, along with certain other previously adopted policies, to so-called no-commitment debt and to conduit debt of the City.

I. Scope

A. This policy will apply to the following funds and entities:

1. The City of Moreno Valley
   a. General Fund
   b. Moreno Valley Utilities
2. Moreno Valley Community Facility Districts (CFD)
3. Moreno Valley Community Services District (CSD)
4. Moreno Valley Public Financing Authority (MVPFA)

II. Introduction

A. The City's budget practices generally have been that operating revenues fully cover operating expenses, including debt service; established reserves meet minimum policy levels; "one-time" revenues are used to fund nonrecurring expenditures; and the prioritization of capital projects eligible for debt financing is accomplished through a "needs assessment" undertaken in the formulation and development of the City's Capital Improvement Budget.

B. The policies are divided into discrete sections relating to: the purposes and uses of debt by the City; the City's creditworthiness objectives; the standards and structure to be used in City debt issues; debt administration and process; criteria for selection of the debt consulting team; and, appendices which summarize the City's current debt portfolio and which provide the reader with a glossary of common terms used in the municipal debt sector.

C. Debt will only be undertaken when the City believes that the project revenues or specific resources will be available and sufficient to service the debt over its life. City debt will not be issued for periods exceeding the useful life or average useful lives of the project or projects to be financed. The policies establish criteria for internal, inter-fund borrowing.

D. Before issuing lease revenue debt or financing leases, the City will determine that the proposed facility is both necessary and desirable, and that no other financing method is practical to finance it. The City shall only use lease revenue debt or financing leases if the tests set forth in the policies are met.

E. The City seeks to maintain the highest possible credit ratings for all categories of short- and long-term direct debt that can be achieved without compromising delivery of basic City services and achievement of adopted City policy objectives.

F. The City will seek to structure debt with level principal and interest costs over the life of the debt.

G. As a matter of policy, no City department, agency, or sub-unit shall incur long-term debt in excess of $100,000 without the approval of the City Council. All requests to incur debt in excess of $100,000 will be presented by memorandum to the Chief Financial Officer/City Treasurer.

H. The City may sponsor conduit financings for those activities (i.e., economic development, housing, health facilities, etc.) that have a general public purpose and are consistent with the City's General Plan and with the City's overall service and policy objectives, as determined by the City Council. It shall be the City's policy to approve for conduit financing only those projects that demonstrate a "significant public benefit." The City will require a deposit of its anticipated fees and expenses for any entity seeking financing through the City as a conduit.

I. The policies establish a Debt Management Team, comprised "ex officio" of the City Manager, the Chief Financial Officer/City Treasurer, and the City Attorney, or their respective designee(s). The Debt Management Team is authorized to provide advice to the City Council, the City Manager, the Chief Financial Officer/City Treasurer, and the various Departments of the City in all matters pertaining to the creation of debt. All direct or indirect debt of the City will be presented to the City Council's Finance committee for deliberation and recommendation prior to submittal to the full City Council. For all debt sales, the City will require that the action taken by the City Council to incur the debt will be taken as a regular business item, and at a regular or special City Council meeting, consistent with state law.

J. The City may engage an underwriter for a negotiated sale of debt through a competitive process administered by the City's Financial & Management Services Department based on the prior recommendation of the City's Debt Management Team.

K. All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the debt, stating that the City has met all statutory requirements necessary for issuance, and determining the federal income tax status of such debt. Bond counsel will be selected by the City Attorney based on the prior recommendation of the City's Debt Management Team.

L. While engagement of a municipal advisor on each City debt issue is not required, it is strongly encouraged by the policies. The City may engage an external municipal advisor through a competitive process administered by the City's Financial & Management Services Department based on the prior recommendation of the City's Debt Management Team.

M. Any unsolicited financing proposal to a City department, agency, or employee involving pledge or other extension of the City's credit through sale of securities, execution of loans or leases, marketing guarantees, or otherwise involving directly or indirectly the lending or pledging of the City's credit, shall be referred to the Financial & Management Services Department for review by the City's Debt Management Team prior to submittal to the City Council for approval.

N. "No commitment" debt is defined differently from conduit debt by the Governmental Accounting Standards Board ("GASB"). The City's no commitment debt is described in the exhibits to these Policies and in the notes to the City's financial statements. It consists generally of so-called "land secured debt" such as Mello-Roos or assessment district debt that indirectly benefits the City but for which the City has no financial commitment. Thus, this is "off balance sheet" debt which is afforded the same treatment as "conduit debt," but which bears different risks in the event of non-compliance with the borrowing agreements.

O. Conduit debt is debt issued by a government for the express purpose of providing capital financing for a third party that is not part of the issuing government's financial reporting entity. These obligations may bear the name of the City but are not legal obligations of the City.

P. Regular, updated debt policies can be an important tool to insure the use of the City's resources to meet its commitments to provide needed services to the citizens of Moreno Valley and to maintain sound financial management practices. These Policies are therefore guidelines for general use, and allow for waivers in extraordinary conditions. The Policies will have served their intended purpose if they stimulate an open debate about the City's existing and/or proposed debt position, and they lead to informed decision making by the City Council.

III. <u>Purposes and Uses of Debt</u>

A. Capital Financing – In General

1. The City normally will rely first on internally generated funds and/or grants and contributions from other governments to finance its capital needs. Debt will be issued for a capital project only in the case of emergency or when it is an appropriate means to achieve an equitable allocation of costs between current and future beneficiaries as determined by the City Council. Debt shall not, in general, be used for projects solely because insufficient funds are budgeted at the time of acquisition or construction. Debt will only be undertaken when the City believes that the project revenues or specific resources will be available and sufficient to service the debt over its life. Debt financing will not be considered appropriate for any recurring purpose such as operating or maintenance costs.

2. Capital improvements should be financed primarily through user fees, service charges, assessments, special taxes or developer exactions so long as the benefits the City will derive from such improvements can be attributed to the users of the improvements. Moreover, the City will specifically consider the costs associated with any borrowing in order to determine that the above funding sources are adequate to service the proposed debt. Accordingly, the Policies assume that development fees will be set at a level that is sufficient at all times to insure that new development pays its fair share of the cost of constructing new facilities in the community.

3. The City will evaluate the use of debt in-lieu of "pay-as-you-go" financing on the basis of the following criteria:

a. Factors favoring "Pay-as-You-Go" financing

i. Current fund balances or project revenues are sufficient to fund the project

ii. Existing or proposed debt levels would have a deleterious effect on the City's credit position or rating

iii. Credit market conditions are unstable or present extraordinary difficulty in marketing the proposed debt

b. Factors favoring use of debt

i. Revenues are deemed to be stable and reliable enough to support the proposed debt at investment grade rating levels
ii. The nature of the financed project will support investment grade ratings
iii. Credit market conditions present favorable interest rates and demand for financings such as the City's
iv. The project being financed is mandated by the state or federal government and resources are insufficient or unavailable
v. The project being financed is immediately required to meet or relieve capacity needs and current resources are insufficient or unavailable
vi. The estimated useful life of the asset to be financed is greater than 5 years

B. Asset Life: The City will consider long-term financing for the acquisition, maintenance, replacement, or expansion of physical assets (including land) only if they have a useful life of at least five years. City debt will not be issued for periods exceeding the useful life or average useful lives of the project or projects to be financed.

C. General Obligation Debt

1. General obligation bonds provide the lowest borrowing costs for major public assets. The use of a general obligation pledge usually eliminates the need for a bond reserve and due to its high credit quality and the ability to levy a tax to repay it, produces borrowing terms and costs unavailable through other methods. Moreover, since the source of repayment of a general obligation bond is from proceeds of specific taxes, the City's operating funds and its operating position are not impacted by the issuance of general obligation bonds. Though the use of the term "general obligation bond" implies that the City's "full faith and credit" would be pledged to the repayment of the bond, the bond is actually repaid from an *ad valorem* tax on real property. Accordingly, the general obligation bond is more properly described as an "unlimited tax" bond.

2. Because of the absence of a limitation on the rate and amount of the tax that might be levied to pay a general obligation bond, state law and prudent finance practice require the submission of such a proposed debt to the electorate. Article XIII of the California Constitution requires that general obligation bonds be submitted to the voters for approval and that the issuance of such bonds be approved by a two-thirds vote.

3. *Ad valorem* property taxes affect various classes of taxpayers differently. Since the enactment of Proposition 13 in 1978, the increases in assessed value of real property have been limited for established property owners. This has the effect of disproportionately burdening newer property owners, who may have less wealth or taxpaying capacity than older, more established property owners. Moreover, business property owners, whose property turns over less frequently than residential property often benefit as a result of this phenomenon.

4. Cities in California may issue general obligation bonds only for the purpose of acquiring, improving or constructing real property. Accordingly, it shall be the City's policy to issue general obligation bonds only for such purposes and then only when the acquisition, improvement, or construction of the proposed real property will provide benefits to the community, in significant amounts, to both users and non-users of the facility.

D. Use of Lease Debt, Certificates of Participation or Financing Leases: Before issuing lease revenue debt or financing leases, the City will determine that the proposed facility is both necessary and desirable, and that no other financing method is practical to finance it. The City may use lease revenue debt or financing leases for those projects which are not sufficiently popular to obtain a two-thirds vote for the issuance of general obligation bonds or which must be financed at a time, or in a manner which do not permit the use of general obligation bonds. The City shall only use lease revenue debt or financing leases: if the project to be financed will generate positive net revenues after debt service; or if the project will significantly reduce City operating costs; or if an equal or greater amount of non-City matching funds will be lost if City's lease revenue or financing lease funds are not applied in a timely manner; or if the project to be financed is less than $1,000,000; or if the project to be financed provides essential City services or would so advance core City policy objectives that its value overrides the value of obtaining voter approval.

IV. <u>"No Commitment" and Conduit Debt</u>

A. City as Issuer of "No-Commitment Debt" or Conduit Debt

1. The City may sponsor conduit financings for those activities (i.e., economic development, housing, health facilities, etc.) that have a general public purpose and are consistent with the City's overall service and policy objectives as determined by the City Council and with the City's General Plan. All conduit financings shall insulate the City completely from any credit risk or exposure and must first be approved by the Chief Financial Officer/City Treasurer and the City Manager before being submitted to City Council for authorization and implementation.

2. Each applicant for a conduit financing by the City will be required to provide an indemnity to the City, or its constituent agencies, for all costs, expenses, attorney fees, settlement or judgment costs arising out of the financing or any of the documentation relating to the financing.

B. Significant Public Benefit Test for Conduit Debt

1. It shall be the City's policy to approve for conduit financing only those projects that demonstrate a "significant public benefit." In general, "significant public benefit" means that the proposed project will enhance the economic, social or cultural quality of life for the residents of the City; or, that the proposed project will stimulate employment within the City; and, that such enhancement or employment gain can be measured in a manner which permits the City to evaluate the risks and rewards of acting as the conduit issuer. Significant public benefit will be based on the City's evaluation of the availability of public access to the widest possible number of residents of the City, depending on the context.

2. Acceleration or addition of public infrastructure in excess of that required by law or the City's land use polices could also produce significant public benefit. Such benefits arise either from the installation or completion of public infrastructure assets prior to the time they might otherwise be installed or from the additional assets which might be realized as a result of being able to finance the project more efficiently.

3. Finally, the finding of significant public benefit can arise from the installation or acquisition of a community asset which produces additional employment opportunities or which produces environmental benefits either as a direct or secondary result of its completion. In circumstances where the financed improvements generate regional benefits, the finding of significant public benefit will be easier than in those where the financed facilities serve only a small number of residents. The process for approval of a conduit financing will generally require a two-step process. First, the Chief Financial Officer/City Treasurer and the City Manager will seek City Council direction and will establish the ground rules for evaluating the request. Requests for conduit financing which do not originate within the Financial & Management Services Department shall be forwarded to the Chief Financial Officer/City Treasurer or City Manager for transmittal to the City's Debt Management Team, which is described in Paragraph VI-A-2. Upon an evaluation by the Chief Financial Officer/City Treasurer and the City Manager, the matter will be referred back to the City Council for approval of the financing documents.

4. The City will require a financial pro forma and business plan for any project to be financed with the proceeds of a conduit issue. The City will impose a fee for acting as a conduit issuer of securities as shown in Appendix B hereto. The City will require an initial deposit increase to $40,000 to reflect current 2023 costs for any entity seeking financing through the City as a conduit, which will be held by the City, and which the City may require additional deposits to, from time to time. The City's fees and costs will be charged against the initial or subsequent deposits, and any excess remaining at the time of issuance of the debt, or the abandonment of the project, whichever is applicable, will be refunded to the applicant.

C. Credit Quality of Conduit Debt

1. The City will consider conduit financing only for those applicants which are credit-enhanced or expected so as to attain a rating of at least "A" from any one of the three major credit rating agencies. The City may consider a waiver of this requirement in special circumstances and upon the written recommendation of the City's Chief Financial Officer/City Treasurer. In cases where the City elects to waive this requirement, it specifically reserves the right to require the sponsor of such a conduit financing to use a private placement of the securities and to impose a "sophisticated investor" requirement acceptable to the City. In this context the concept of a "sophisticated investor" will be the standard imposed by federal securities law for private placements of corporate securities. In addition, the City will seek to limit the resale of the securities in one of the following ways: (1) the investor must agree to hold the securities to their respective maturity dates; or, (2) the investor must agree to secure a rating on the bonds of at least "A" before reselling them; or, (3) the investor must agree to resell the securities only (a) to another sophisticated investor who will also agree to sign a sophisticated investor letter, <u>and</u> (b) obtain the City's approval for such a resale. Selection of an individual criterion depends on the facts and circumstances of the particular sale, but restrictions 1 and 3 above are most suitable where the credit characteristics of the individual issue are expected to remain static. Issues that are expected to improve over time in credit characteristics are more appropriate for the application of rule number 2.

V. <u>Creditworthiness Objectives</u>

A. Credit Ratings

1. The City of Moreno Valley seeks to maintain the highest possible credit ratings for all categories of short- and long-term direct debt that can be achieved without compromising delivery of basic City services and achievement of adopted City policy objectives. The City recognizes that there is a direct correlation between the credit rating it achieves and the cost of borrowing. Therefore, as a general rule, the City will seek to acquire and maintain an investment grade rating on all of its direct debt.

2. The City recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Nevertheless, the City is committed to ensuring that actions within its control are prudent and consistent with these Policies.

B. Financial Disclosure, Initial and Continuing

1. 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. The City is committed to meeting secondary disclosure requirements as set forth in Securities and Exchange Commission Rule 15c2-12, and its amendments, on a timely and comprehensive basis. (See Section VIII– Continuing Disclosure for additional discussion.)

2. Official statements accompanying debt issues, Annual Comprehensive Financial Reports, and continuous disclosure statements will meet (at a minimum), the standards articulated by the Municipal Standards Rulemaking Board (MSRB), the Government Accounting Standards Board (GASB), the National Federation of Municipal Analysts, the Securities and Exchange Commission (SEC), and Generally Accepted Accounting Principles (GAAP). The Financial & Management Services Department is designated as the responsible party for ongoing disclosure to established national information repositories and for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies and for compliance with continuing disclosure requirements required by contractual arrangements necessary to comply with Rule 15c2-12.

C. Capital Planning: To enhance creditworthiness and prudent financial management, the City of Moreno Valley is committed to systematic capital planning, intergovernmental cooperation and coordination, and long-term financial planning. Evidence of this commitment to systematic capital planning will be demonstrated through adoption of an annual review of the City's capital improvement budget and its ten-year capital improvement plan budget.

D. Debt Limits: The City will keep outstanding debt within the limits prescribed by State statute and at levels consistent with its creditworthiness objectives. In the case of debt serviced from the City's General Fund, the City will observe a guideline of 7% of the amounts budgeted for expenditures and transfers out as the maximum level for General Fund resources committed to the repayment of debt.

VI. <u>Debt Standards and Structure</u>

A. Term of Debt: Debt will be structured for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users. The implication of this policy will generally require that debt be issued only for a time period that is consistent with the life span of the project for which the debt was issued.

B. Debt Structure

1. Debt will be structured to achieve the lowest possible net cost to the City given market conditions, the urgency of the capital project, and the nature and type of security provided. Moreover, to the extent possible, the City will design the repayment of its overall debt so as to recapture rapidly its credit capacity for future use. The City shall strive to repay at least 20 percent of the principal amount of its general fund supported debt within five years and at least 40 percent within ten years as these measures are used by the major national credit rating agencies to determine the creditworthiness of the City. In applying the 20% and 40% tests, the debt repayment amounts are non-cumulative, that is, the goal is to have all of the City's general fund debt structured so as to achieve a reduction in principal of 20% at the five year mark and 40% at the ten year mark. Individual issues will be structured so that the new debt is retired using a level debt service.

2. Individual issues may be structured using either serial bonds or term bonds. In the case of issues structured with term bonds, the City will use a sinking fund to retire the term bonds. A sinking fund is the mechanism whereby money is accumulated on a regular basis in a separate account for the purpose of redeeming the term bonds when due. The sinking fund monies are typically applied to redeem bonds on an annual basis in amounts that would result in approximately level debt service requirements.

3. The City will not issue debt that commences principal payment beyond the fiscal year in which the financed asset is completed or is substantially available to the City.

Capitalized interest may be used in the debt structure, but only to the extent necessary to accommodate the deferral of principal to the point of substantial availability to the City.

C. Amortization

1. The City will seek to structure debt with level principal and interest costs over the life of the debt. So-called "back-loading" of debt service will be considered only when natural disasters or extraordinary or unanticipated external factors make the short-term cost of the debt prohibitive, when the benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present, when such structuring is beneficial to the City's overall amortization schedule, or when such structuring will allow debt service to more closely match project revenues during the early years of the project's operation.

2. In the case of an issue structured with term bonds and a sinking fund, the City's policy will be to retire the term bonds in substantially level fashion over each year of the life of the sinking fund unless the factors described above apply.

D. Variable Rate Debt**:** The City may choose to issue securities that pay a rate of interest that varies according to pre-determined formula or results from a periodic remarketing of the securities, consistent with state law and covenants of pre-existing bonds, and depending on market conditions. The City may elect to control its interest rate exposure on variable rate debt through the use of financial products designed to offset such risks, but only upon the expressed approval of the Chief Financial Officer/City Treasurer.

E. Subordinate Debt: The City shall issue subordinate lien debt only if it is financially beneficial to the City and is consistent with the City's creditworthiness objectives as set forth in Paragraph IV-A, "Credit Ratings." Generally, subordinated debt is that debt which has a lien position on an asset or revenue stream that is junior in position to another debt issues. Examples could include leases that are junior in payment obligation to senior leases.

F. Non-Traditional Financial Products: The City will consider the use of non-traditional financial products on a case by case basis and consistent with state law and financial prudence. Examples of such non-traditional products include: interest rate swaps, interest rate caps and collars, "synthetic" refunding transactions and float contracts. Use of non-traditional financial products will only be undertaken upon written recommendation of the Chief Financial Officer/City Treasurer and concurrence by the City Council.

G. Tax-Exempt vs. Taxable Bonds: The City generally seeks to issue debt at the lowest total cost. Generally this objective is achieved through the issuance of tax-exempt debt which can be offered at lower interest rates since investors get the additional benefit of the tax break. The Internal Revenue has established guidelines which must be met for municipal bond issuances to qualify for the tax-exempt status. (For a more detailed discussion of this issue please see IRS Publication 4079 – Tax-Exempt Government Bonds). One of the relationships that can interfere with the City's ability to issue under the tax-exempt status is the area of Management and Service Contracts. When entering into these types of contracts it is recommended that the

City involve bond counsel to ensure that the language does not impact the ability of the City to issue tax-exempt debt related to the impacted facilities or improvements.

H. Refunding

1. Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding or the refunding is essential in order to modernize covenants essential to the City's financial or operating position.

2. In general, advance refundings for economic savings will be undertaken when net present value savings of at least five percent (5%) of the refunded debt can be achieved. Current refundings that produce net present value savings of less than five percent will be considered on a case-by-case basis, provided that the present value savings are at least three percent (3%) of the refunded debt. Refundings with savings of less than three percent (3%), or with negative savings, will not be considered unless there is a compelling public policy objective. The measurement of the 3% or 5% savings may, but is not required, to consider benefits to the City from sources other than the proposed bond transaction, if deemed appropriate by the City's Debt Management Team.

I. Short-Term Borrowings: Use of short-term borrowing, such as bond anticipation notes (BANs), tax and revenue anticipation notes (TRANs), tax-exempt commercial paper and other similar short-term borrowing vehicles will be undertaken only if the transaction costs plus interest of the debt are less than the cost of internal financing, or available cash is insufficient to meet working capital requirements. The City will not employ the use of such borrowings solely for the purpose of earning arbitrage profits.

J. Credit Enhancements: Credit enhancement (letters of credit, reserve fund surety, bond insurance, etc.) will be used to the extent that net debt service on the bonds is reduced by more than the costs of the enhancement, measured in present value terms. In order to calculate the economic effectiveness of a credit enhancement, the City will compare the present worth of the debt service required on the proposed transaction on both an enhanced and unenhanced basis to determine the economic benefits of the enhancement offered. Credit enhancement which does not produce economic benefits, in present value terms, will be considered only if acceptance of the enhancement directly furthers other City goals and objectives.

VII. <u>Debt Administration and Process</u>

A. All Debt to be Reviewed by City's Debt Management Team

1. No City Department, agency, or sub-unit shall incur long term debt of more than $100,000 without the approval of the City Council. Indebtedness is generally any obligation of the City to pay money in the future with a stated maturity of longer than nine months. All requests to incur long term debt of more than $100,000 and with a stated maturity of longer than nine months will be presented by memo from the requesting Department, through the Chief Financial Officer/City Treasurer, to the

City's Debt Management Team. The memo shall specify the purpose of the borrowing, any options for financing the project without borrowing, and specific sources of payment of debt service. This policy is not intended to be an impediment to the purchase of goods or services, or the contracting for such goods or services by the City in the normal course of business.

2. The Debt Management Team will be comprised "ex officio" of the City Manager, the Chief Financial Officer/City Treasurer and the City Attorney, or their respective designee(s). The City Manager may appoint additional members to the Debt Management Team on an ad hoc basis as individual circumstances warrant. The Debt Management Team is authorized to provide advice to the City Council, the City Manager, the Chief Financial Officer/City Treasurer, and the various Departments of the City in all matters pertaining to the creation of debt. The Chief Financial Officer/City Treasurer has responsibility for the oversight and periodic review of these Policies, and will recommend amendments from time to time to the City Council. All direct and indirect debt of the City and its component units will be presented to the City Council's Finance Committee for deliberation and recommendation prior to submittal to the full City Council.

B. Investment of Bond Proceeds

1. All general fund supported and revenue bond proceeds shall be invested as part of the City's consolidated pool, using appropriate trust fund accounting procedures, unless otherwise specified by law or the controlling bond documents and approved in advance by the Chief Financial Officer/City Treasurer. Investments will be consistent with those authorized by existing state law and by the City's investment policy

2. It will also be the City's policy to select investment advisors, if appropriate to the facts and circumstances of an individual borrowing or borrowing program, on a basis similar to that which it uses to engage investment advisors for its investment portfolio. The City will execute the investment directives for bond proceeds through the applicable trustee for such proceeds.

C. Costs and Fees

1. All costs and fees related to issuance of bonds will be paid out of bond proceeds. In the case of conduit financings, the City may require prepayment for certain costs and fees from the project applicant(s). Under certain extraordinary circumstances, the City may authorize the expenditure of City funds for the engagement of outside counsel or consultants for the purpose of assisting the City with the feasibility analysis of the contemplated debt. It is intended that any expenditure for such purposes would be in anticipation of, or reliance upon, reimbursement by a project applicant for such expenses.

2. Should the proposed debt issue be abandoned prior to its completion, the City will retain any deposits or prepayments in amounts necessary to insure that its costs, both direct and indirect, are fully recovered.

D. Method of Sale

1. In general, City debt will be issued through a competitive bidding process. Bids will be awarded on a true interest cost basis (TIC), providing other bidding requirements are satisfied. In such instances where the City in a competitive bidding deems the bids received unsatisfactory, it may, at the election of the Chief Financial Officer/City Treasurer, enter into negotiation for sale of the securities.

2. Negotiated sales of debt will be considered in circumstances when the complexity of the issue requires specialized expertise, when a change of underwriter may result in losses (for example, changing the remarketing agent in mid-program for variable rate debt), when the negotiated sale would result in substantial savings in time or money, or when market conditions or City credit are unusually volatile or uncertain. Only the Chief Financial Officer/City Treasurer shall make such a determination.

E. Council Action to be Regular Business Item, Not Consent Calendar: For all debt sales, the City will require that the action taken by the City Council to incur the debt will be taken as a regular business item, and at a regular or special City Council meeting, consistent with state law. Generally, it shall be the City's policy to submit the proposed debt issuance to the City Council in a study session wherever possible prior to submittal to the full City Council as an action item.

VIII. Underwriters, Consultants and Counsel

A. Underwriters

1. For all competitive and negotiated sales, underwriters will be required to demonstrate sufficient capitalization and experience related to the debt. The City may engage an underwriter for a negotiated sale of debt through a competitive process administered by the City's Financial & Management Services Department based on the prior recommendation of the City's Debt Management Team. The utilization of the underwriter for a particular bond sale will be at the discretion of the Financial & Management Services Department and pursuant to a written underwriting agreement.

2. The selection process for underwriters will require that the selected underwriter have comprehensive municipal debt experience, experience with diverse financial structuring requirements and strong distribution capabilities for municipal securities. Upon completion of the underwriter's engagement, the City has the option of making a new arrangement with any existing underwriter.

B. Payment of Underwriter's Counsel Fees**:** City payments for underwriter's counsel in negotiated sales will be authorized by the Financial & Management Services Department on a case by case basis depending on the nature and complexity of the transaction and the needs expressed by the underwriters.

C. Bond Counsel: The City will retain external bond counsel for all debt issues and such retainer will be evidenced by a contract with the selected firm(s). All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the debt, stating that the City has met all statutory requirements necessary for issuance, and determining the federal income tax status of such debt. Bond counsel will be selected by the City Attorney based on the prior recommendation of the City's Debt Management Team. The selection process will require comprehensive municipal debt experience and clearly demonstrated skill and capabilities in the municipal bond sector and with the type of financing proposed. Upon expiration of a specific contract, the City has the option of signing a new contract with its existing bond counsel.

D. Disclosure Counsel: In certain instances, the City may choose to engage the services of a disclosure counsel for the purposes of assisting in the various aspects of the preparation of an official statement, private placement memorandum or other form of offering, disclosure or continuing disclosure document to be disseminated in connection with the sale of the City's debt or conduit debt. In performing these services, the disclosure counsel is clearly representing the City, as the issuer of the debt, and not the underwriter as well, as is the case where underwriter's counsel prepares such documents. Because disclosure counsel is engaged by the City, the cost of disclosure counsel's services is typically paid from the proceeds of the debt issue, and may be structured as either hourly charges or fixed fees, depending on the circumstances.

E. Municipal Advisor

1. The utilization of the municipal advisor for particular bond sales will be at the discretion of the Financial & Management Services Department on a case by case basis and pursuant to a written municipal advisory service contract. While engagement of a municipal advisor on each City debt issue is not required, it is strongly encouraged. In particular, the services of a municipal advisor will be used on all competitive sales of City debt as well as those negotiated issues that present unique structuring, marketing or credit circumstances.

2. The City may engage an external municipal advisor through a competitive process administered by the City's Financial & Management Services Department based on the prior recommendation of the City's Debt Management Team. The selection process for municipal advisors will require that the selected municipal advisor have comprehensive municipal debt experience, experience with diverse financial structuring requirements and strong pricing capabilities for determining the fairness of the prices received by the City for its debt issues. Upon completion of the municipal advisor's engagement, the City has the option of making a new arrangement with any existing municipal advisor.

3. For each engagement the municipal advisor will provide services to the Chief Financial Officer/City Treasurer and such other departments of the City as may be designated by the Chief Financial Officer/City Treasurer pursuant to an agreed upon scope of services to be negotiated with the Chief Financial Officer/City Treasurer.

F. Fiscal Agents, Paying Agents and Trustees: The Financial & Management Services Department will utilize a fiscal agent, paying agent or trustee on all City indebtedness, as may be required by the type of debt instrument being used. Fees for such services on outstanding bonds will be paid from the resources of the department or program supporting the debt service on the instrument, unless specified otherwise by the Chief Financial Officer/City Treasurer. The City's Financial & Management Services Department will administer the review and journalizing of transactions from monthly statements furnished by the fiscal agent, paying agent or trustee, as the case may be.

G. Compensation for Services: Compensation for bond counsel, underwriter's counsel, financial advisors, and other financial service providers will be consistent with industry standards.

H. Selection Process: The Chief Financial Officer/City Treasurer shall make all final determinations of selection for underwriters, and municipal advisors based on the recommendation of the City's Debt Management Team. The determination will be made following an independent review of competitive bids or responses to requests for proposals (RFPs) or requests for statements of qualifications (RFQs). The City's Debt Management Team will review the proposals or statements of qualifications. The City's municipal advisors at the direction of the Chief Financial Officer/City Treasurer may also review underwriter proposals.

I. Other Service Providers: The Chief Financial Officer/City Treasurer shall have the authority to periodically select other service providers (e.g., escrow agents, verification agents, trustees, arbitrage consultants, assessment engineers, special tax consultants, investment advisors etc.) as necessary to meet legal requirements and minimize net City debt costs. The Chief Financial Officer/City Treasurer may select firm(s) to provide such financial services related to debt without a RFP or RFQ, consistent with City requirements. A firm so selected must receive Chief Financial Officer/City Treasurer approval before undertaking any transaction or providing any service.

IX. Continuing Disclosure

A. Background

Pursuant to SEC Rule 15c2-12 (the "Rule"), issuers of obligations are required under most circumstances to provide financial and operating information on an annual basis with the Municipal Securities Rulemaking Board (MSRB) using the Electronic Municipal Market Access system (EMMA). The City of Moreno Valley, California (the "City"), the Moreno Valley Public Financing Authority (MVPFA), the Successor Agency to the Moreno Valley Redevelopment Agency and certain community facility districts and assessment districts (collectively, the "Moreno Valley Issuers") have issued or may issue obligations which are covered by the Rule (the "Obligations") and must comply with any required filings in a timely manner. These Policies and Procedures are intended to assure that all filings required under the Rule are made timely and completely and meet all requirements of the Rule. The Moreno Valley Issuers have covenanted or will covenant to comply with the Rule through the execution and delivery of continuing disclosure agreements or certificates (each, a "Continuing Disclosure Undertaking") applicable to each issue of Obligations.

The Rule requires that an underwriter, prior to purchasing or selling an issue of obligations in connection with a covered offering, determine that the issuer, and any other "Obligated Person" (as defined in the Rule) for whom financial or operating data is presented in the official statement, has undertaken in writing to provide the following information to the MSRB using EMMA and to the appropriate state information depository ("SID"), if any:

Note: There is no SID currently in the State of California. If the State of California should establish a SID, the Moreno Valley Issuers may also be required to file all required information with the SID depending on the contractual requirements of their previous Continuing Disclosure Undertakings.

1. By a specified date, annual financial and operating information for each Obligated Person for whom financial information or operating data is presented in the official statement (an "Annual Information Filing").

2. By a specified date, if available, audited annual financial statements for each Obligated Person ("Audited Financial Statements") and, if not available by the date required, unaudited financial statements followed by with Audited Financial Statements once they are available.

3. In a timely manner within 10 business days of occurrence, notice of the occurrence of one or more of the listed events described in the Rule (a "Rule 15c2-12 Event Notice").

4. Not less than 30 days before the submission date, the Responsible Party shall prepare a draft submission of required financial and operating information, highlighting any information still unavailable.

5. In a timely manner, notice of a failure of any Obligated Person required to make the Annual Information Filing and/or file the Audited Financial Statements on or before the date(s) specified in the Continuing Disclosure Undertaking ("Notice of Failure").

A. Listed Events

"The Rule" requires filing of a Rule 15c2-12 Event Notice upon the occurrence of certain listed events described in the Continuing Disclosure Undertakings. The Responsible Party shall provide a Rule 15c2-12 Event Notice to the MSRB using EMMA within 10 business days of occurrence of any such listed event. The list is as follows:

1. Principal and interest payment delinquencies
2. Non-payment related defaults
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Adverse tax opinions, IRS notices or material events affecting the tax status of the security
6. Modifications of rights of security holders **(if material)**
7. Bond calls **(if material)**

8. Defeasances
9. Release, substitution or sale of property securing repayment of the securities **(if material)**
10. Rating changes
11. Tender offers
12. Bankruptcy, insolvency, receivership or similar event of the obligated person
13. Merger, consolidation, or acquisition of the obligated person **(if material)**
14. Appointment of a successor or additional trustee, or the change of name of a trustee **(if material)**
15. **Substitution of credit or liquidity providers, or their failure to perform**
16. Incurrence of financial obligation (if material)
17. Default, event of acceleration, termination event, modification of terms or other similar events under the terms of a financial obligation of the obligated party, any of which reflect financial difficulties.
18. Other voluntary disclosure as listed in the Rule

B. Familiarity with EMMA Submission Process

1. The Responsible Party shall register with EMMA and review the on-line process of filing with EMMA located at www.emma.msrb.org in order to submit the required information. The MSRB market Information Department can also be contacted at (703) 797-6668. A tutorial is available at the website and a practice submission is available as well.

2. The Responsible Party also shall enroll the Moreno Valley Issuers in EMMA's reminder system to ensure timely performance of their responsibilities and obligations.

C. California Debt and Investment Advisory Commission (CDIAC)

1. With the passage of Senate Bill 1029 (Hertzberg) which became effective January 1, 2017, the Responsible Party will prepare and submit an annual report by January 31 of each year for the previously completed fiscal year.
2. CDIAC has developed the Annual Debt Transparency Report (ADTR) and an online reporting portal to assist issuers in meeting this requirement.

3. The ADTR will include the following data elements (these requirements can be found in section 8855(k) of the California Government Code):
   - **a.** Debt authorized during the reporting period, which shall include the following:
     - i. Debt authorized at the beginning of the period
     - ii. Debt authorized and issued during the reporting period
     - iii. Debt authorized but not issued at the end of the reporting period
     - iv. Debt authority that has lapsed during the reporting period

   - **b.** Debt outstanding during the reporting period which will include:
     - i. Principal balance at the beginning of the reporting period

ii. Principal paid during the reporting period
iii. Principal outstanding at the end of the reporting period

c. The use of proceeds of issued debt during the reporting period which shall include:
i. Debt proceeds available at the beginning of the reporting period.
ii. Proceeds spent during the reporting period and the purpose for which it was spent.
iii. Debt proceeds remaining at the end of the period.

4. Section 6599.1 of the California Government Code requires that all issuers selling Marks-Roos bonds, which is part of the Marks-Roos Local Bond Pooling Act of 1985, after January 1, 1996 are required to report specific information to CDIAC by October 30th of the current year and each year thereafter, until maturity. Section 53359.5(b) of the California Government Code requires all agencies issuing Mello-Roos Community Facilities District bonds, including refunding bonds, after January 1, 1993, to report specific information to CDIAC by October 30th of each year.

5. To facilitate and ensure consistency in reporting, CDIAC has developed the Yearly Fiscal Status Report (YFSR).

D. Training Efforts

To ensure adequate resources to comply with the Rule, the Responsible Party shall develop a training process aimed at providing additional assistance in preparing required information. The training process shall be conducted at least annually and shall encompass a review of the EMMA submission process and an understanding of the timing requirements necessary for full compliance.

E. Coordination Effort

The Responsible Party shall coordinate the preparation and submission of the required information with the Municipal Advisor. Special Tax Consultant and corporate trustees and paying agents to ensure full compliance with the requirements of the Rule and the Continuing Disclosure Undertakings.

F. Records Retention

The Responsible Party shall maintain records with respect to the filings with the MSRB using EMMA, including, but not limited to, EMMA posting receipts showing the dates and nature or contents of all filings for each issue of Obligations of any Moreno Valley Issuer outstanding during each fiscal year.

G. Investor Communication

While the City shall post its annual financial report as well as other financial reports on the City's website, this information is intended for the citizens of the City of Moreno Valley. Information with the intention of reaching the investing public, including bondholders, rating analysts, investment advisors, or any other member of the investment community will be filed on the EMMA system. Information similar to that posted on EMMA will be included on the City's website under the Investor Relations tab.

H. Responsible Party; Maintenance of List and Files

The Responsible Party for the Moreno Valley Issuers shall be the Chief Financial Officer/City Treasurer for the City and any alternate or assistant as the Chief Financial Officer/City Treasurer shall appoint. The Responsible Party shall maintain a current list for each fiscal year identifying each issue of Obligations of any Moreno Valley Issuer outstanding during such fiscal year setting forth the name, original principal amount, date of issuance and CUSIP numbers for each such issue, the dates by which the Annual Information Filings and the Audited Financial Statements are required to be submitted to the MSRB using EMMA and the current contact information for the dissemination agent (if any) with respect to such Continuing Disclosure Undertaking, such list to be accompanied by copies of the related Continuing Disclosure Undertakings.

I. Annual Information Filing Requirements

The Responsible Party shall be knowledgeable and familiar with the provisions of each Continuing Disclosure Undertaking as to the type, format and content of the financial and operating information to be included in each Annual Information Filing to be made thereunder and the timing requirements for the filing thereof. The submission dates for the Continuing Disclosure Undertakings vary and in some cases require the filing of annual reports as early as the last day of December in each year following (or, in some cases, within 180 days following) the close of the Moreno Valley Issuers' fiscal year which is currently June 30.

J. Audited Financial Statements

Audited Annual Financial Statements of the Moreno Valley Issuers are also required to be filed no later than the submission dates established under each Continuing Disclosure Undertaking. The Responsible Party shall be knowledgeable and familiar with the specific timing requirements for the filing of Audited Financial Statements and, if not available by the date(s) required, the provisions regarding the filing of unaudited financial statements under the terms of each Continuing Disclosure Undertaking.

K. Notices of Failures to File

The Responsible Party shall be knowledgeable and familiar with the specific requirements for the filing of a Notice of Failure to make Annual Information Filings and/or to file Audited Financial Statements by the date(s) required under the terms of each Continuing Disclosure Undertaking.

L. Preparation

Approximately 90 days before the submission date for required filings established under each Continuing Disclosure Undertaking, the Responsible Party shall initiate the process of preparing the financial and operating information required to be submitted thereunder. The Responsible Party shall assemble the information available at that time and determine the scope of additional information to be required and also contact the auditors to establish a schedule for completion and submission for the Audited Financial Statements.

1. Not less than 30 days before the submission date, the Responsible Party shall prepare a draft submission of required financial and operating information, highlighting any information still unavailable.

2. On or before the submission date established under each Continuing Disclosure Undertaking, the Responsible Party shall make the Annual Information Filing together with the Audited Financial Statements. If the Audited Financial Statements are not then available, unaudited financial information shall be filed with the MSRB using EMMA and the Audited Financial Statements shall be filed within 10 business days of their receipt and acceptance.

3. The Responsible Party shall set calendar reminders in the City Finance Department's recordkeeping systems.

II. <u>Other Policies</u>

A. Arbitrage Compliance: The Financial & Management Services Department shall maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the Federal Tax Code.

B. Unsolicited Financing Proposals: Any unsolicited financing proposal to a City department, agency, or employee involving pledge or other extension of the City's credit through sale of securities, execution of loans or leases, marketing guarantees, or otherwise involving directly or indirectly the lending or pledging of the City's credit, shall be referred to the Financial & Management Services Department for review by the City's Debt Management Team prior to submittal to the City Council for approval.

C. Internal Borrowings

1. Provided that sufficient resources are available, liquidity will not be impaired, and a defined source of repayment is available, the City will generally favor internal borrowings over external borrowings for short-term liquidity purposes. The Financial & Management Services Department may undertake inter-fund borrowings and such borrowings will be evidenced by a written memorandum or agreement specifying the tenor and terms of the borrowing, including repayment terms, interest rates and calculations and procedures for amendment and must have the approval of the City Council, except for fiscal year end accounting entries that create temporary loans for financial statement presentation purposes. Any internal borrowing must be first coordinated with the responsible managing department. For example, the internal borrowings affecting the City's successor agency or Community Development Block Grant funds should be coordinated with the Community and Economic Development Department. All such inter-fund borrowings will be reflected in the City's accounting records as "due to" and "due from" items respecting the funds and accounts borrowed from and loaned to, respectively.

2. Inter-fund borrowing will typically bear interest at the rate being borne by the Local Agency Investment Fund ("LAIF") administered by the California State Treasurer's Office, unless specifically recommended otherwise by the Chief Financial Officer/City Treasurer.

D. Issuance Tax Compliance

1. The purpose of these Post-Issuance Tax Compliance Procedures is to establish policies and procedures in connection with tax-exempt bonds or obligations (whether in the form of bonds, certificates of participation, installment sale contracts, leases or other financing structures) and other tax-advantaged bonds or obligations, if any (e.g. "build America bonds" or direct pay subsidy bonds) (collectively, the "Bonds") issued for the benefit of the City of Moreno Valley (the "City") so as to ensure that the City complies with all applicable post-issuance requirements of federal income tax law needed to preserve the tax-exempt or special tax status of the Bonds.

2. General

a. Ultimate responsibility for all matters relating to City financings and re-financings rests with the City's Chief Financial Officer/City Treasurer (the "Responsible Officer") or such other person or persons as the Responsible Officer shall designate.

3. Tax Compliance Requirements

a. External Advisors / Documentation

i. The Responsible Officer and other appropriate City personnel shall consult with bond counsel and other legal counsel and advisors, as needed, throughout the Bond issuance process to identify requirements and to establish procedures necessary or appropriate so that the Bonds will continue to qualify for the appropriate tax status. Those requirements and procedures shall be documented in a City resolution(s), Tax Certificate(s) and/or other documents finalized at or before issuance of the Bonds. Those requirements and procedures shall include future compliance with applicable arbitrage rebate and yield restriction requirements and all other applicable post-issuance requirements of federal tax law throughout (and in some cases beyond) the term of the Bonds.

ii. The Responsible Officer and other appropriate City personnel also shall consult with bond counsel and other legal counsel and advisors, as needed, following issuance of the Bonds to ensure that all applicable post-issuance requirements, in fact, are met. This shall include, without limitation, consultation in connection with future contracts with respect to the use or management of Bond-financed assets.

iii. Whenever necessary or appropriate, the City shall engage expert advisors (such as a "Rebate Service Provider") to assist in the calculation of arbitrage rebate which may be payable in respect of the investment of Bond proceeds.

b. Role of the City

i. Unless otherwise provided by City resolutions, unexpended Bond proceeds shall be held by the City, and the investment of Bond proceeds shall be managed by the Responsible Officer. The Responsible Officer shall maintain records and shall prepare regular, periodic statements to the City regarding the investments and transactions involving Bond proceeds.

ii. If a City resolution provides for Bond proceeds to be administered by a trustee, the trustee shall provide regular, periodic (monthly) statements regarding the investments and transactions involving Bond proceeds.

c. Arbitrage Rebate and Yield

i. Unless a Tax Certificate documents that bond counsel has advised that arbitrage rebate will not be applicable to an issue of Bonds:

a.) the City shall engage the services of a Rebate Service Provider, and the City or the Bond trustee shall deliver periodic statements concerning the investment of Bond proceeds to the Rebate Service Provider on a prompt basis;

b.) upon request, the Responsible Officer and other appropriate City personnel shall provide to the Rebate Service Provider additional documents and information reasonably requested by the Rebate Service Provider;

c.) the Responsible Officer and other appropriate City personnel shall monitor efforts of the Rebate Service Provider and assure payment of required rebate amounts, if any, no later than 60 days after each 5-year anniversary of the issue date of the Bonds, and no later than 60 days after the last Bond of each issue is redeemed; and

d.) during the construction period of each capital project financed in whole or in part by Bonds, the Responsible Officer and other appropriate City personnel shall monitor the investment and expenditure of Bond proceeds and shall consult with the Rebate Service Provider to determine compliance with any applicable exceptions from the arbitrage rebate requirements during each 6-month spending period up to 6 months, 18 months or 24 months, as applicable, following the issue date of the Bonds.

e.) The City shall retain copies of all arbitrage reports and trustee statements as described below under "Record Keeping Requirements".

d. Use of Bond Proceeds

i. The Responsible Officer and other appropriate City personnel shall:

a.) 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;

b.) maintain records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of Bonds;

c.) 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;

d.) 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; and

e.) meet at least annually with personnel responsible for Bond-financed assets to identify and discuss any existing or planned use of Bond-financed assets and to ensure that those uses are consistent with all covenants and restrictions set forth in applicable City resolutions and Tax Certificates.

f.) All relevant records and contracts shall be maintained as described below.

1. Record Keeping Requirements

a. Unless otherwise specified in applicable City resolutions or Tax Certificates, the City shall maintain the following documents for the term of each issue of Bonds (including refunding Bonds, if any) plus at least three years:

b. a copy of the Bond closing transcript(s) and other relevant documentation delivered to the City at or in connection with closing of the issue of Bonds;

c. a copy of all material documents relating to capital expenditures financed or refinanced by Bond proceeds, including (without limitation) construction contracts, purchase orders, invoices, trustee requisitions and payment records, as well as documents relating to costs reimbursed with Bond proceeds and records identifying the assets or portion of assets that are financed or refinanced with Bond proceeds;

d. a copy of all contracts and arrangements involving private business use of Bond-financed assets; and

e. copies of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee statements.

e. Identification and Correction of Violations: In the event that the use of bond proceeds or bond-financed assets, or the payments derived from such assets, are different than those expected at the time bonds are issued, the City should contact Bond Counsel in a timely manner to ensure that there is no adverse effect on the tax status of the bonds. Under existing Treasury Regulations, various "self-help" remedies are available to the City in the event of certain violations of the limits of use of bond proceeds, the investment of bond proceeds, and the use of the bond-financed assets. For example, a change in the use of the bond-financed assets after the issuance of the bonds that results in excessive private business use may be corrected through a 'remedial action' that is described in the Treasury Regulation Section 1.141-12. Such remedial actions include a defeasance of the portion of the bonds affected by the excessive private business use or using the disposition proceeds from the sale of the bond-financed assets for another qualified purpose. In the event that the self-help remedial actions in Treasury Regulation Section 1.141-12 are not available to the City, violations occurring through City action (or inaction) that potentially adversely affect the status of the bonds may be corrected through the Voluntary Closing Agreement Program as further described in IRS Notice 2008-31 and in Sections 7.2.3 of the Internal Revenue Manual.

APPENDIX A: GLOSSARY

AD VALOREM TAX
A tax calculated "according to the value" of property. Such a tax is based on the assessed valuation of real property and, in certain cases, on a valuation of tangible personal property. In most jurisdictions, the tax is a lien on the property enforceable by seizure and sale of the property. General restrictions, such as overall restrictions on rates, or the percent of charge allowed, sometimes apply. As a result, *ad valorem* taxes often function as the balancing element in local budgets.

ADVANCE REFUNDING
A procedure whereby outstanding bonds are refinanced by the proceeds of a new bond issue more than 90 days prior to the date on which outstanding bonds become due or are callable. Generally, either the entire outstanding issue is refunded (full refunding) or only the callable bonds are refunded (partial refunding). Typically an advance refunding is performed to take advantage of interest rates that are significantly lower than those associated with the original bond issue. At time, however, an advance refunding is performed to remove restrictive language or debt service reserve requirements required by the original issue. (See also "CURRENT REFUNDING")

AMORTIZATION
The planned reduction of a debt obligation according to a stated maturity or redemption schedule.

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

ASSESSED VALUATION
The appraised worth of property as set by a taxing authority through assessments for purposes of *ad valorem* taxation. The method of establishing assessed valuation varies from state to state, with the method generally specified by state law. For example, in certain jurisdictions the assessed evaluation is equal to the full or market value of the property; in other jurisdictions the assessed valuation is equal to a percentage of the full market value.

ASSESSMENT BONDS
Bonds issued to develop facilities and basic infrastructure for the benefit of specific properties within the assessment district which directly benefit from the facilities. The key consideration here is the "direct and special benefit" to be received by the property subject to the assessment. Voter approval is not required. Instead, a majority vote of the property owners with a majority of assessments is needed to authorize the issue. The issuer's recourse for nonpayment is foreclosure. This type of bond is normally not rated. The bonds may be issued under the provisions of the various assessment bond acts of the State, whichever is most appropriate. (See also "Special Tax Bond" for a description of bonds issued pursuant to the Mello-Roos Act.)

BALLOON MATURITY
A maturity within a serial issue of securities which contains a disproportionately large percentage of the principal amount of the original issue. A balloon maturity is generally distinguished from a term bond by the fact that a term bond generally has the benefit of a sinking fund to smooth out the amount of principal paid from any single year's operations. A balloon maturity increases the likelihood that the jurisdiction will need to refinance the securities for an extended period of time upon their initial maturity.

BASIS POINT
One one-hundredth of one percent (0.0001).

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

BOND ANTICIPATION NOTES
Notes issued to provide temporary financing, to be repaid from the proceeds of a subsequent long-term financing.

BOND COUNSEL
An attorney (or firm of attorneys) retained by the issuer to give a legal opinion concerning the validity of the securities. The bond counsel's opinion usually addresses the subject of tax exemption. Bond counsel may prepare, or review and advise the issuer regarding authorizing resolutions or ordinances, trust indentures, official statements, validation proceedings and litigation.

BOND INSURANCE
Bond insurance is a type of credit enhancement whereby a monoline insurance company indemnifies an investor against default by the issuer. In the event of a failure by the issuer to pay principal and interest in full and on time, investors may call upon the insurance company to do so. Once assigned, the municipal bond insurance policy generally is irrevocable. The insurance company receives an up-front fee, or premium, when the policy is issued.

BOOK-ENTRY-ONLY
Bonds that are issued in fully registered form but without certificates of ownership. The ownership interest of each actual purchaser is recorded on computer.

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION (CDIAC)
The CDIAC website provides information, education, and technical assistance on debt issuance and public fund investments to local public agencies and other public finance professionals. CDIAC was created to serve as the state's clearinghouse for public debt issuance information and to assist state and local agencies with the monitoring, issuance, and management of public debt. CDIAC is the website the Annual Debt Transparency Report (ADTR) must be submitted to.

CALL OPTION
The right to redeem a bond prior to its stated maturity, either on a given date or continuously. The call option is also referred to as the optional redemption provision. Often a "call premium" is added to the call option as compensation to the holders of the earliest bonds called. Generally, the earliest callable bonds called carry a 102% premium, the next earliest, a 101 % premium, and the balance of the bonds are called at par value.

CAPITAL APPRECIATION BOND
A bond without current interest coupons that is sold at a substantial discount from par. Investors are provided with a return based upon the accretion of value in the bond through maturity. (see zero coupon bond)

CAPITAL LEASE

The acquisition of a capital asset over time rather than merely paying a rental fee for temporary use. A lease-purchase agreement, in which provision is made for transfer of ownership of the property for a nominal price at the scheduled termination of the lease, is referred to as a capital lease.

CERTIFICATES OF PARTICIPATION
A lease agreement with another party (a lessor, such as a joint powers authority) to lease an asset over a defined period of time at a prearranged annual payment. Voter approval is generally not required. Lease payments are made primarily from general fund revenues. Current law requires the lessee to make lease payments only if the City has beneficial use of the facility to be leased. The legislative body has to appropriate annual debt service payments. For the security of the bondholders, a reserve fund is normally established and held by a trustee until all bonds are paid. Interest during project construction must be capitalized. An "asset transfer" structure, whereby an existing facility is used as security to finance construction or acquisition of another project, may be used for flexibility. Sometimes this structure is styled as a “lease revenue bond,” which is functionally the same as Certificates of Participation.

COMMERCIAL PAPER (TAX-EXEMPT)
By convention, short-term, unsecured promissory notes issued in either registered or bearer form with a stated maturity of 270 days or less.

COMPETITIVE SALE
Sales of securities in which the securities are awarded to the bidder who offers to purchase the issue at the best price or lowest cost.

CONDUIT FINANCING
The issuance of securities by a governmental entity to finance a project that will primarily benefit a third party, typically a private corporation. The security for this type of financing is usually the credit of the private entity, rather than the governmental unit. Usually such securities do not constitute general obligations of the issuer since the private entity is liable for generating the pledged revenues for repayment. Industrial development bonds are a common type of conduit financing.

CONTINUING DISCLOSURE
The requirement by the Securities and Exchange Commission for most issuers of municipal debt to provide current financial information to the informational repositories for access by the general marketplace. Generally, SEC Rule 15c2-12 requires issuers of municipal securities and certain other “obligated persons” to make contractual promises to provide continuing information to the marketplace during the life of securities issues. Under the rule, an underwriter is not permitted to purchase or sell municipal securities in connection with a primary offering of $1.0 million or more unless it has entered into such a contractual arrangement with the issuer of the securities for the benefit of the holders of the securities.

In conduit issues, the obligation to maintain continuing disclosure efforts should be imposed on the project sponsors.

COUPON RATE
The interest rate on specific maturities of a bond issue. While the term "coupon' derives from the days when virtually all municipal bonds were in bearer form with coupons attached, the term is still frequently used to refer to the interest rate on different maturities of bonds in registered form.

CURRENT REFUNDING
A procedure whereby outstanding bonds are refinanced by the proceeds of a new bond issue within 90 days of the date on which outstanding bonds become due or are callable. Generally, either the entire outstanding issue is refunded (full refunding) or only the callable bonds are refunded (partial refunding). Typically a current refunding is performed to take advantage of interest rates that are significantly lower than those associated with the original bond issue. At times, however, a current refunding is performed to remove restrictive language or debt service reserve requirements required by the original issue. (See also "ADVANCE REFUNDING")

CUSIP NUMBER
The term CUSIP is an acronym for the Committee on Uniform Securities Identification Procedures. An identification number is assigned to each maturity of an issue, and is usually printed on the face of each individual certificate of the issue. The CUSIP numbers are intended to help facilitate the identification and clearance of municipal securities. As the municipal market has evolved, and new derivative products are devised, the importance of the CUSIP system for identification purposes has increased.

DEBT BURDEN
The ratio of outstanding tax-supported debt to the market value of property within a jurisdiction. The overall debt burden includes a jurisdiction's proportionate share of overlapping debt as well as the municipality's direct net debt.

DEBT LIMITATION
The maximum amount of debt that is legally permitted by a jurisdiction's charter, constitution, or statutory requirements.

DEBT SERVICE
The amount necessary to pay principal and interest requirements on outstanding bonds for a given year or series of years.

DEBT SERVICE RESERVE FUND
The fund into which moneys are placed which may be used to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements. The debt service reserve fund may be entirely funded with bond proceeds, or it may only be partly funded at the time of the issuance and allowed to reach its full funding requirement over time, due to the accumulation of pledged revenues. If the debt service reserve fund is used in whole or part to pay debt service, the issuer usually is required to replenish the funds from the first available funds or revenues. A typical reserve requirement might be the maximum aggregate annual debt service for any year remaining until the bonds reach maturity. The size of the reserve fund, and the manner in which it is invested, may be subject to arbitrage regulations.

DEBT SERVICE RESERVE FUND SURETY
A form of insurance provided by a bond insurer to satisfy a reserve fund requirement for a bond issuance. Under this arrangement, instead of depositing cash in a reserve fund the City would buy a surety policy by paying a one time premium equal to a percentage of the fair value of policy.

DEFAULT
The failure to pay principal or interest in full or on time. An actual default should be distinguished from technical default. The latter refers to a failure by an issuer to abide by certain covenants but does not necessarily result in a failure to pay principal or interest when due.

DEFEASANCE
Providing for payment of principal of premium, if any, and interest on debt through the first call date or scheduled principal maturity in accordance with the terms and requirements of the instrument pursuant to which the debt was issued. A legal defeasance usually involves establishing an irrevocable escrow funded with only cash and US. government obligations.

DEPOSITORY TRUST COMPANY (DTC)
A limited purpose trust company organized under the New York Banking Law. DTC facilitates the settlement of transactions in municipal securities.

DERIVATIVES
Financial products whose value is derived from the value of an underlying asset, reference rate, or index. Typically these agreements are contracts between a lender/investor and a borrower and include interest rate swaps, caps, floors, collars, and forward purchase agreements.

DISCOUNT
The difference between a bond's par value and the price for which it is sold when the latter is less than par.

ELECTRONIC MUNICIPAL MARKET ACCESS SYSSTEM (EMMA)
Managed by the MSRB the EMMA website was established to increase the transparency of the municipal securities market by providing free public access to municipal securities disclosures and data. EMMA provides investors, state and local governments and other market participants with key information and tools to put that information into context. EMMA is the location where all municipal issuers are to post or publish continuing disclosure information.

ENTERPRISE ACTIVITY
A revenue-generating project or business. The project often provides funds necessary to pay debt service on securities issued to finance the facility. The debts of such projects are self-liquidating when the projects earn sufficient monies to cover all debt service and other requirements imposed under the bond contract. Common examples include water and sewer treatment facilities and utility facilities.

MUNICIPAL ADVISOR
A consultant who advises an issuer on matters pertinent to a debt issue, such as structure, sizing, timing, marketing, pricing, terms, and bond ratings. A municipal advisor has a fiduciary duty to protect the financial interest of the City.

FITCH INVESTORS SERVICE
A financial services company, founded in 1913, which provides investors with an independent assessment of the credit worthiness of debt obligations.

FINAL OFFICIAL STATEMENT (FOS)
A document published by the issuer that generally discloses material information on a new issue of municipal securities including the purposes of the issue, how the securities will be repaid, and the financial, economic and social characteristics of the issuing government. Investors may use this information to evaluate the credit quality of the securities. (See also Official Statement)

FLOW OF FUNDS
The order in which pledged revenues must be disbursed, as set forth in the trust indenture or bond resolution. In most instances, the pledged revenues are deposited into a general collection account or revenue fund as they

are received and subsequently transferred into the other accounts established by the bond resolution or trust indenture. The other accounts provide for payment of the costs of debt service, debt service reserve deposits, operation and maintenance costs, renewal and replacement, and other requirements.

GENERAL OBLIGATION BONDS
Bonds backed by the full faith and credit of the City. The taxing power is an unlimited *ad valorem* tax, usually on real estate and personal property. A special rate is incorporated in the property tax bill annually to pay for debt service. A two-thirds voter approval is required for authorization. Because it is secured by an unlimited tax levy, this structure has strong marketability and lower interest costs.

GENERAL OBLIGATION DEBT
Debt that is secured by a pledge of the *ad valorem* taxing power of the issuer. Also known as a full faith and credit obligation.

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

INVESTMENT GRADE
The broad designation given bonds which have a high probability of being paid, and minor, if any, speculative features. Bonds rated "BBB" or higher by Standard & Poor's Corporation, "Baa" or higher by Moody's Investor's Service, and "BBB" or higher by Fitch IBCA Rating Service are deemed by those agencies to be "investment grade."

ISSUANCE COSTS
The costs incurred by the bond issuer during the planning and sale of securities. These costs include but are not limited to municipal advisory, disclosure counsel and bond counsel fees, printing and advertising costs, rating agency fees, and other expenses incurred in the marketing of an issue.

ISSUER COUNSEL
An attorney engaged by the issuer to represent its best interest in a debt transaction. Often this role is performed by bond counsel, however, at times separate counsel is engaged that does not have responsibility to issue the bond opinion as well as represent the issuer's best interests.

JUNIOR LIEN BONDS
Bonds that have a subordinate claim against pledged revenues.

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

LEASE REVENUE BONDS
Bonds that are secured by an obligation of one party to make annual lease payments to another for use and occupancy of an asset.

LESSEE
The party to a lease agreement that obtains use of a facility or piece of equipment on exchange for rental payments.

LESSOR
The owner of the property being leased.

LETTER OF CREDIT
Bank credit facility whereby a bank will honor the payment of an issuer's debt, in the event that an issuer is unable to do so, thereby providing an additional source of security for bondholders for a predetermined period of time. A letter of credit often is referred to as an L/C or an LOC. Letter of Credit can be issued on a "stand-by" or "direct pay" basis.

LINE OF CREDIT
Bank credit facility wherein the bank agrees to lend up to a maximum amount of funds at some date in the future in return for a commitment fee.

MANAGER
The member (or members) of an underwriting syndicate -charged with the primary responsibility for conducting the affairs of the syndicate. The managers take the largest underwriting commitment.

UNDERWRITER
The underwriter serving as head of the syndicate. The lead Manager generally handles negotiations in a negotiated underwriting of a new issue of municipal securities or directs the process by which a bid is determined for a competitive underwriting. The lead Manager also is charged with allocating securities among the members of the syndicate in accordance with the terms of the syndicate agreement or agreement among underwriters.

UNDERWRITING GROUP
Any member of the management group.

MASTER LEASE AGREEMENTS
A lease agreement with a provider to lease equipment or facilities whose useful life is too short, or whose cost is too small to finance with conventional long-term debt. Various pieces and types of real and personal property from different vendors over a period of time can be acquired under one master lease agreement. Interest can be fixed or tied to an index. Financing costs are normally minimal, but the interest cost may be higher than with other instruments.

MARKS-ROOS BONDS
Bonds issued by a joint powers authority to buy other bond issues. By pooling bond issues, marketability can be improved and administration costs are reduced. Often used in the case of a negotiated sale of successor agency debt in order to avoid the competitive sale requirements for such debt.

MOODY'S INVESTORS SERVICE, INC.
A financial service company, a subsidiary of Dun & Bradstreet Corp. has provided ratings for municipal securities and other financial information to investors since 1918.

MUNICIPAL SECURITIES RULEMAKING BOARD (MSRB)
A self-regulating organization established on September 5, 1975 whose mission is to protect investors, state and local governments and other municipal entities, and the public interest by promoting a fair and efficient municipal securities market. The MSRB fulfills this mission by regulating the municipal securities firms, banks and municipal advisors that engage in municipal securities and advisory activities. To further protect market participants, the MSRB provides market transparency through its the EMMA website.

NEGOTIATED SALE
A sale of securities in which the terms of sale are determined through negotiation between the issuer and the purchaser, typically an underwriter, without competitive bidding

NET INTEREST COST (NIC)
The average interest cost of a bond issue calculated on the basis of simple interest. This calculation involves a fraction in which the numerator is the gross amount of interest to be paid over the bonds' life (adjusted for the amount of discount or premium granted at the time of sale), and the denominator is the average life of the bond issue multiplied by the issue's par value.

NOTE
A written promise to pay a certain amount of money on a specific date, with interest. By convention, the maturity of a note is one year or less, making it short-term debt. However, financial instruments with a longer stated maturity sometimes are called Notes. For example, a bond anticipation note can have maturities of two years or longer.

OFFICIAL STATEMENT (OS)
A document published by the issuer that generally discloses material information on a new issue of municipal securities including the purposes of the issue, how the securities will be repaid, and the financial, economic and social characteristics of the issuing government. Investors may use this information to evaluate the credit quality of the securities. (See also Final Official Statement)

OPERATING LEASE
A lease that enables the lessee to acquire the use of an asset only, not its ownership as in a capital lease. The lease term typically runs for only a portion of the asset's useful life.

ORIGINAL ISSUE DISCOUNT BONDS
Bonds which are sold at a substantial discount from their par value at the time of the original sale.

OVERLAPPING DEBT
The legal jurisdictions of local governments often overlap one another. In some cases, one unit of government is located entirely within the boundaries of another. Overlapping debt represents the proportionate share of debt that must be borne by one unit of government because another government with overlapping or underlying taxing authority issued its own bonds.

PAR VALUE
The face value or principal amount of a security.

PAYING AGENT
An agent of the issuer with responsibility for timely payment of principal and interest to bond holders.

PRELIMINARY OFFICIAL STATEMENT (POS)
The POS is a preliminary version of the official statement that is used by an issuer or underwriters to describe the proposed issue of municipal securities prior to the determination of the interest rate(s) and offering price(s). The preliminary official statement, also called a "red herring," often is examined upon by potential purchasers prior to making an investment decision.

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

PRESENT VALUE
The value of a future amount or stream of revenues or expenditures in current dollars.

PRIVATE ACTIVITY BONDS
A bond where the use of bond proceeds is used for private purposes. If deemed a private activity bond, the interest is not tax exempt unless the use of the proceeds meets certain requirements of the Internal Revenue Code.

PUT OPTION
The right to demand repayment of principal prior to a bond's maturity. In the case of short-term variable rate debt, this right often is referred to as a variable-rate demand option.

REFUNDING
A procedure whereby an issuer refinances an outstanding bond issue by issuing new bonds.

REGISTERED BOND
A security on which the ownership is recorded by the issuer or its agent.

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

REVENUE BONDS
Bonds secured by revenues generated by the facility that is financed or by dedicated user fees. Voter approval may or may not be required. Planning is more complex because costs and revenues affect each other. Credit enhancement (e.g., insurance, or letter of credit) may be needed because of the limited source of debt service payment.

SECONDARY MARKET
The market in which bonds are sold after their initial sale in the new issue market.

SENIOR LIEN BONDS
Bonds having a prior, or first claim on pledged revenues.

SERIAL BONDS
A bond issue in which the principal is repaid in periodic installments over the issue's life.

SOPHISTICATED INVESTOR
A purchaser of bonds, who is considered knowledgeable about the pricing and risk factors associated with the repayment of bonds. This type of investor usually purchases bonds in large dollar amounts, typically $100,000 or more.

SPECIAL ASSESSMENTS
A charge imposed against property or parcel of land that receives a special benefit by virtue of some public improvement that is not, or cannot be enjoyed by the public at large. Special assessment debt issues are those that finance such improvements and are repaid by the assessments charged to the benefiting property owners.

STANDARD & POOR'S CORPORATION (S&P)
A financial service company, a subsidiary of S&P Global, Inc. -Company. S&P provides ratings for municipal securities and other financial information to investors.

TAX ALLOCATION BONDS
Bonds secured by property tax increment (property taxes generated on assessed value in excess of the frozen property tax base) in a redevelopment project area. These bonds are issued to promote economic development. Voter approval is not required.

TAX INCREMENT
Property tax revenues derived from the incremental assessed value increases from the redevelopment project area's frozen tax base.

TERM BONDS
A bond issue in which the entire principal matures on one date. Term bonds also refer to a particularly large maturity of a bond issue that is created by aggregating a series of maturities. In the latter instance, provision is made for mandatory structuring fund installments in advance of the term bond's maturity to reduce the burden of a particular large debt service payment in any one fiscal year.

TRUE INTEREST COST (TIC)
An expression of the average interest cost in present value terms. The true interest cost is a more accurate measurement of the bond issue's effective interest cost and should be used to ascertain the best bid in a competitive sale.

UNDERWRITER'S COUNSEL
An attorney engaged by the underwriter(s) to represent its interests in a debt transaction. Generally underwriter's counsel prepares the bond purchase agreement between the issuer and the underwriter and, when more than one underwriter is involved, the agreement among underwriters.

VARIABLE RATE BOND
A bond on which the interest rate is reset periodically, usually no less often than semi-annually. The interest rate is reset either by means of an auction or through an index.

VENDOR LEASES
A vendor of equipment acts as the lessor and investor, and holds the lease for its full term or may assign the lease. The motivating factor to the vendor is usually to encourage future sales of its product.

YIELD CURVE
A graph that plots the market yields on securities with different maturities, at a given point in time. The vertical axis represents the yields, while the horizontal axis depicts the time to maturity. The term structure of interest rates, as reflected by the yield curve, will vary according to market conditions, resulting in a wide variety of yield curve configurations.

YIELD-TO-MATURITY
The rate of return that an investor will receive if the bond remains outstanding and the investor holds the bond to maturity. The investor must take into account the price paid for the bonds, the dates of purchase and maturity, and the coupon rate on the bonds. The "yield to maturity" assumes that interest payments will be re-invested at the same coupon rate borne by the bond.

ZERO COUPON

A bond which does not pay interest periodically. Investors receive interest on the scheduled principal maturity date of the obligation.

APPENDIX B: FORM OF FINANCING ASSISTANCE APPLICATION FOR CONDUIT DEBT

I. PROPOSED OWNER OF THE PROJECT

A. Official Company Name:____

DBAs (if applicable): ____

Official Mailing Address:____

____

Telephone:____________________ Fax:________________________

Company Headquarters and address of primary operating location in

California:____

B. Form of Ownership: Corporation ________________________

Partnership:________________ Sole Proprietorship______________________

Other (describe)____

Is the proposed owner a subsidiary or affiliated directly or indirectly with any other organization? ____
If so, indicate relationship and name of related organization:
____

If corporation, indicate state of incorporation:____________________ and date qualified to do business in California (if incorporated elsewhere):______________________

C.

Officers	Names & Home Address	Other Business Affiliations
President	____________________	____________________
	____________________	____________________
Vice President (Finance)	____________________	____________________
	____________________	____________________

Secretary ____________________ ____________________

Directors ____________________ ____________________

____________________ ____________________

____________________ ____________________

____________________ ____________________

D. List name and home address of equity owners of 10% or more. If publicly held, indicate stock exchange traded on. If partnership, list General and Limited Partners and interest owned by each. If trust, list beneficiaries.

Name	Home Address	% of Equity Interest Owned

E. Name, business address, and phone number of officer to whom all notices and communications concerning the project should be sent:

____

____

F. Principal Bank(s) of Account with name and phone number of contact person:

Name:____________________ Contact:____________________

Address:____

____

Telephone:____________________

Name:____________________ Contact:____________________

Address:____

____

Telephone:________________________

G. Counsel to Applicant:

Name:____

Address:____

____

Telephone:____________________________ Fax:______________________________

H. Bond Counsel on proposed project:

Name:____

Address:____

____

Telephone:____________________________ Fax:______________________________

I. Investment Banker for proposed project:

Name:____

Address:____

____

Telephone:____________________________ Fax:______________________________

J. Company History

List past tax-exempt financing transactions:

____

____

____

Have any of these projects ever been in default? ________Yes ________No

If yes, please provide particulars:

K. Is the firm or any of its principals currently or in the past 10 years been engaged in any litigation involving financing of the type and nature of that being proposed to the City. _____Yes _____No.

If yes, please provide the names of the principals and details of the litigation. Use additional pages if necessary.

II. PROPOSED PROJECT

A. Give brief narrative explanation why project is being undertaken.

B. Narrative Description, including renderings if available of proposed project.

C. Proposed facilities to be constructed with bond proceeds (describe).

D. Does applicant now own the site of the proposed facility?_________ If not, has applicant entered into an option or commitment or other agreement to purchase it?

E. Estimated useful life of buildings, equipment, or off-site improvements.

F. Does the proposed project involve, in whole or in part, any of the following: residential real property; sports facilities; commercial property; health care facilities; manufacturing facilities; entertainment facilities; or industrial land development activities? Yes_____ No_____ If yes, please explain.

G. Estimated date on which facilities will:

Start construction:_________________ Complete construction:_____________________

III. COST OF THE PROJECT

State the costs reasonably necessary to the acquisition or construction of the proposed project together with any machinery and equipment necessary or convenient in connection therewith, and including any utilities, access roads or apportionment facilities;

A. Land and Facilities $__________________________

B. Architectural and Engineering $__________________________

C. Construction Costs: $__________________________

D. Interest during construction: $__________________________

E. Financing, legal, miscellaneous (from ______ to ______) (please specify) $__________________________

F. Contingency (if appropriate) $__________________________

TOTAL $__________________________

IV. SIGNIFICANT PUBLIC BENEFITS

Please furnish a description of the significant public benefits that will arise from the issuance of bonds in the maximum amount proposed in the application.

A. Employment creation/displacement – will the completion of the project contribute to job creation? Explain.

B. Energy, mineral or natural or cultivated resource conservation – will the completion of the project lead to increased utilization of resources:

1. Estimate of increased utilization of resources.

2. Estimate of increases in cost to the public due to increased utilization.

C. Does construction of the project, or completion of the project, have any adverse environmental impacts, including additional waste disposal?

1. Estimate of the environmental impacts.

2. Include copies of any required Environmental Impact Reports.

Report to City Council

TO:	Mayor and City Council
FROM:	Launa Jimenez, Chief Financial Officer/City Treasurer
AGENDA DATE:	May 21, 2024
TITLE:	ANNUAL STATEMENT OF INVESTMENT POLICY

RECOMMENDED ACTION

Recommendation:

1. Adopt the Annual Statement of Investment Policy.

SUMMARY

Staff recommends that the City council review and adopt the Annual Statement of Investment Policy. There are currently only minor changes proposed to the policy.

California Government Code Sections 53601 and 53646, respectively, delineate the types of investments allowed, define various restrictions governing these investments and suggest a periodic review of the investment report and investment policy by the governing body of the local agency. The City's Investment Policy has established a review process whereby the Council reviews and adopts the policy annually. The policy identifies allowable investments, the reporting process related to the investments, safekeeping measures in maintaining assets and the roles of staff in the management of the investment program.

DISCUSSION

The City's Investment Policy calls for the policy to be reviewed and adopted annually by the City Council. The policy was last revised in June 2023. The policy in its revised form has incorporated all of the most recent changes made to the California Government Code as well as the best practices which have been identified by the California Debt and Investment Advisory commission (CDIAC). The policy has been reviewed and certified by both the Association of Public Treasurers of the United States and Canada (APT US&C) and the California Municipal Treasurer's Association (CMTA) in February 2020 and comments from that review process have been incorporated into the current version of the policy.

The Investment Policy has been reviewed by both staff and our investment management firm, Chandler Asset Management. Based on this review, there have been only minor changes made to the policy to maintain recommended industry best practices.

This item was scheduled for review by the Finance Subcommittee at their April 23, 2024 meeting.

ALTERNATIVES

1. Adopt Annual Statement of Investment Policy. *Staff recommends this alternative since this will allow for the timely review and adoption of the policy for the coming fiscal year.*

2. Do not adopt Annual Statement of Investment Policy and provide staff with additional direction. *Staff does not recommend this alternative since it will not allow for a timely review and adoption process prior to the start of the new fiscal year.*

FISCAL IMPACT

No fiscal impact.

NOTIFICATION

Posting of Agenda

PREPARATION OF STAFF REPORT

Prepared By:
Kimberly Ganimian
Deputy Finance Director

Department Head Approval:
Launa Jimenez
Chief Financial Officer/City Treasurer

CITY COUNCIL GOALS

None

CITY COUNCIL STRATEGIC PRIORITIES

1. **Economic Development**
2. **Public Safety**
3. **Library**
4. **Infrastructure**
5. **Beautification, Community Engagement, and Quality of Life**
6. **Youth Programs**

ATTACHMENTS

To view large attachments, please click your “bookmarks” on the left hand side of this document for the necessary attachment.

1. Investment Policy – 5.21.2024

INVESTMENT POLICY

PURPOSE: The City Council of the City of Moreno Valley (City) and its related authorities and agencies recognizes its responsibility to properly direct the investments of funds under its care. It is the purpose of this policy to provide guidelines for the prudent investment of unexpended funds in a manner which allows for maximum security, while at the same time providing the best investment return to meet the daily cash flow demands of the City, and conform to all applicable statutes pertaining to the investment of public funds. In instances in which the Policy is more restrictive than Federal or State law, the Policy supersedes.

This investment policy was endorsed and adopted by the City Council and is effective as of the 21st day of May, 2024, and replaces any previous versions.

I. Scope

A. Investments for the City and its related authorities and agencies will be made on a pooled basis including the City of Moreno Valley, the City of Moreno Valley Housing Authority, the Moreno Valley Community Services District, the Moreno Valley Public Facilities Financing Corporation, the Moreno Valley Public Financing Authority, and the Moreno Valley Industrial Development Authority. These funds are accounted for in the City's Annual Comprehensive Financial Report and include:

1. General Fund
2. Special Revenue Funds
3. Debt Service Funds
4. Capital Project Funds
5. Internal Service Funds
6. Agency Funds
7. Enterprise Funds

B. The City Council has the authority to allow investments that do not follow this policy as long as such investments are recommended by the City Manager and City Treasurer, and expressly authorized by the City Council.

C. At the time this policy is adopted, the portfolio may hold investments which were made in the past and in accordance with previous policies and existing State law, but do not meet the provisions of this policy. These past investments are grandfathered as permissible investments. The City may choose to hold these investments until maturity; however, their maturity cannot be extended without the expressed authorization of the City Council.

D. Funds excluded from this policy

1. **Bond Proceeds.** Proceeds of debt issuance shall be invested in accordance with the City's general investment philosophy as set forth in this policy. The overriding policy for the investment of bond proceeds will be dictated by the bond documents governing such funds as long as the documents are approved by the City Council or related governing board.

2. **Deferred Compensation Plans.** Investments related to the City's deferred compensation plans are not subject to this policy since third-party administrators manage them and the individual plan participant's direct investment and mutual fund selection. Deferred compensation plans must be approved by the City Council.

3. **Voluntary Employees' Beneficiary Association (VEBA) plan:** Funds deposited into VEBA plans on behalf of employees are managed under a separate investment policy and are held and managed by a third party fund manager.

II. **Prudence** (Reference CA Govt. Code 53600 and 53646)

A. Prudent Investor Standard: Management of the City's investments is governed by the Prudent Investor Standard as set forth in the California Government Code 53600.3:

> **"…**all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

B. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

III. **Objectives** (Reference CA Govt. Code 53600.5)

A. The City's investment philosophy sets the tone for its policies, practices, procedures and objectives that control the investment function. The investment of funds will be guided by the primary objectives of safety, liquidity and a reasonable market rate of return.

1. **Safety** – Safety of principal is the foremost objective of the investment program. The City will undertake investments in a manner that ensures the preservation of capital in the portfolio taken as a whole.

2. **Liquidity** – The City will maintain sufficient cash and short-term investment instruments which, together with projected revenues, will provide sufficient liquidity so that the City will be able to meet all operating requirements which might be reasonably anticipated including an amount to cover reasonably estimated contingencies.

3. **Reasonable market rate of return (Yield)** – The City's investment portfolio will be designed with the objective to attain a benchmark rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

B. The investment function will have the ongoing objectives of: assuring compliance with Federal, State and local laws governing the investment of public funds, maintaining reserves for long-term projects and contingencies, and establishing quality standards and limits related to the type of investments made and with which institutions investments are placed.

IV. **Delegation of Authority** (Reference CA Govt. Code 41006 and 53607)

A. The City of Moreno Valley Municipal Code specifies that the City Council will appoint the City Treasurer. By resolution, the City Council has appointed the Chief Financial Officer to serve as the City Treasurer. The Treasurer serves as the chief investment officer for the City and is authorized to invest or deposit the City's funds in accordance with this policy, California Government Code Sections 53600 and 53630 et seq., and all other related Federal and State laws. The City Treasurer also serves as the Treasurer for the City of Moreno Valley Housing Authority, the Moreno Valley Public Financing Authority, the Moreno Valley Public Facilities Financing Corporation, the Moreno Valley Community Services District and other related City entities. In the absence of the City Treasurer, and unless otherwise delegated, the Deputy Finance Director will serve as the Acting Treasurer. The City Treasurer may appoint deputy treasurers to act on behalf of the City. The City Treasurer will provide written authorization when delegating any of his/her authority.

B. The City Manager will provide periodic oversight to the investment function which includes but is not limited to reviewing monthly investment reports issued by the City Treasurer.

C. The City Council's primary responsibilities over the investment function include approving the Investment Policy, annually reviewing such policy, reviewing monthly investment reports issued by the Treasurer, authorizing bond documents and other unique financing transactions, and authorizing any deviations from the City's investment policies.

D. The Finance Sub-Committee of the City Council will provide oversight to the investment function through the periodic review of the investment report at their committee meetings.

E. The City may engage the services of one or more external investment managers to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940.

V. **Investment Procedures**

A. The City Treasurer shall establish internal procedures for the operation of the investment program consistent with this policy. These procedures shall include, but are not limited to, the following items:

1. Safekeeping
2. Master repurchase agreements
3. Wire transfer agreements
4. Collateral/Depository agreements
5. Broker/Dealer relationships

B. Cash handling and cash management are integral components of an effective investment management program. In keeping with the Administrative Policy on Cash Control, the aforementioned procedure manual shall include references to the following:

1. Cash collection practices
2. Depository practices
3. Cash flow issues
4. Cash flow projections
5. Anti-theft/Anti-fraud practices
6. Banking agreements

7. Accounting practices

C. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Treasurer**.**

D. Allocation of Pool Interest

1. All interest earnings related to the investment pool will be allocated to the General Fund unless specifically directed by Federal or State statute, City Council directive or contractual agreement.

2. The allocation methodology will be maintained by the City Treasurer.

VI. Ethics and Conflict of Interest

A. All officials, staff members and consultants, involved in the investment functions will refrain from personal business activity that could conflict with the execution of the investment function or which may impair their ability to make impartial investment decisions. Officials, staff members, and consultants, will disclose to the City Manager any financial interests with a financial institution, provider, dealer or broker that conducts business with the City.

B. Officials, staff members and consultants will further disclose any personal financial positions that could be related to the City's cash and investment portfolio.

C. All bond issue participants, including but not limited to, underwriters, bond counsel, financial advisors, brokers and dealers will disclose any fee sharing arrangements or fee splitting to the City Manager prior to the execution of any transactions. The providers must disclose the percentage share and approximate dollar amount share to the City prior to the execution of any transactions.

D. All participants in the investment process are required to comply with terms of the Political Reform Act, Fair Political Practices Commission Regulations promulgated thereunder (2 C.C.R. §§ 18110 through 18998), the City's Conflict of Interest Policy, including, without limitation, filing of Form 700, notification and recusal obligations, and Government Code section 1090 prohibitions.

VII. Investment Controls

A. The City Manager shall oversee and ensure that the City Treasurer implements and maintains a system of internal investment controls and segregated responsibilities of the investment function in order to prevent the following:

1. Fraud
2. Theft
3. Loss of principal
4. Loss of control over funds
5. Inaccurate reporting
6. Negligence
7. Over-reliance on a single employee for investment decisions

B. Internal controls should include but are not limited to (for a more specific list of internal controls see the investment management plan):

1. Segregation of duties (e.g., the purchaser of investments is different than the person recording the transaction)
2. Reconciliation of investment report and cash balances
3. Dual authorization of transactions

C. An external auditor will review the investment program annually in order to provide reasonable assurance that policy and procedures are complied with.

VIII. Authorized Financial Dealers and Institutions (Reference CA Govt. Code 53601)

A. The City Treasurer will obtain financial information from qualified institutions to determine if the institution markets in securities appropriate to the City's needs, can assign qualified sales representatives, and can provide written agreement to abide by the conditions set forth in the City of Moreno Valley Investment Policy.

1. The City may engage the services of investment advisory firms to assist in the management of the portfolio (discretionary portfolio management) and investment advisors may utilize their own list of approved broker/dealers. The list of approved firms maintained by the investment advisor shall be provided to the City on an annual basis or upon request. The investment advisor will certify that they have read and are willing to comply with the City's investment policy.

2. In the event that an external investment advisor is not used in the process of recommending a particular transaction in the City's portfolio, any authorized broker/dealer from whom a competitive bid is obtained for the transaction will meet the following criteria and provide the required information to the City Treasurer.

B. The City Treasurer will maintain a list of financial institutions and broker/dealers authorized to provide investment services to the City who are authorized to provide investment services in the State of California. An eligible designation does not guarantee that the City will do business with the firm or institution.

C. The following criteria will be used in determining investment providers

1. Broker/Dealers: The purchase by the City of any investment other than those purchased directly from the issuer shall be purchased from a broker/dealer firm designated as a "Primary Government Dealer" by the Federal Reserve Bank of New York or a regional dealer that qualifies under SEC Rule 15C3-1 (uniform net capital rule).

2. Banks: The City shall only purchase securities from banks which meet all of the following criteria:

   a. Nationally or State chartered banks
   b. Registered as investment securities dealers with the Securities and Exchange Commission
   c. Independently rated in the "A" rating category or higher by two nationally recognized statistical ranking organizations

3. Investment Bankers, Underwriters and Financial Advisors: The purchase by the City of any investments from these providers in the course of completing a bond transaction must be expressly authorized by the City Council after such a provider discloses their commission, spread or fee in approximate dollar amount. Otherwise, the acquisition of such investments must be procured from the broker/dealers customarily used by the City.

4. The Federal Reserve Bank: Direct purchases of Treasury bills, notes and bonds from the U.S. Federal Reserve Banks branches are allowed and are exempt from quality requirements.

D. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must provide the following information to the City Treasurer:

1. A completed City of Moreno Valley Broker/Dealer Questionnaire
2. Audited financial statements
3. Proof of Financial Industry Regulatory Authority (FINRA) certification
4. Trading resolution
5. Proof of state registration
6. Certification of having read and willingness to comply with City's investment policy

E. The City Treasurer will conduct an annual review of the financial condition and registrations of brokers/dealers on the City's approved list.

F. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which or with which the City invests.

G. Certificates of deposit will not be placed with an institution once it has received a Cease and Desist order from any bank regulatory agency.

IX. **Authorized and Suitable Investments (with quality and limitation guidelines)** (Reference CA Govt. Code 53601)

A. The California Government Code sections 53600 et seq. governs the allowable investments into which a local government agency can enter. These Government Code sections also stipulate as to the portfolio percentage limits and investment quality standards for some but not all permitted investments. The Government Code sections provide a starting point for establishing the City quality standards, percentage limits and maturity levels. Should the Government Code become more restrictive than this policy, the Government Code restrictions shall prevail.

B. Whenever a maximum allowable percentage of the portfolio is stipulated for any type of security as detailed below, the limit or maximum allowable is determined by the portfolio size or composition at the time of purchase.

C. Following is a table summarizing allowable investments for the City. This table summarizes and is consistent with California Government Code Sections 53600 and 53630 et seq.

INVESTMENT TYPE	MAXIMUUM REMAINING MATURITY	MAXIMUM SPECIFIED % OF PORTFOLIO	MINIMUM QUALITY REQUIREMENTS	GOVT. CODE SECTION
Local Agency Bonds	5 years	— none —	— none —	53601(a)
U.S. Treasury Obligations	5 years	— none —	— none —	53601(b)
State Obligations: CA and Others	5 years	— none —	— none —	53601(d)
CA Local Agency Obligations	5 years	— none —	— none —	53601(e)
U.S Agency Obligations	5 years	— none —	— none —	53601(f)
Bankers' Acceptances	180 days	40%	— none —	53601(g)
Commercial Paper: Non-pooled Funds	270 days	40% of the agency's invested funds (3)	"A-1/P-1/F-1"; if the issuer has issued long-term debt it must be rated at least in the "A" ratings category	53601(h)(2)(C)
Negotiable Certificates of Deposit	5 years	30%	— none —	53601(i)
Placement Service Deposits	5 years	30% (2)	— none —	53061.8 & 53635.8
Placement Service Certificates of Deposit	5 years	30% (2)	— none —	53061.8 & 53635.8
Repurchase Agreements	1 year	— none —	— none —	53601(j)
Medium-Term Notes	5 years	30%	"A" rating category by a NRSRO(1)	53601(k)
Supranational Securities (Only International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank are approved issuers)	5 years	30%	"AA" rating category by a NRSRO(1)	53601(q)
Mutual Funds and Money Market Mutual Funds	n/a	20%	Multiple	53601(l) and 53601.6(b)
Collateralized Bank Deposits	5 years	— none —	— none —	53630 et seq. and 53601(n)
Mortgage Pass-Through Securities/Asset Backed Securities/Collateralized Mortgage Backed Securities (not issued by US Treasury or U.S. Agencies)	5 years	20% (1)	"AA" rating category by a NRSRO(1)	53601(o)
County Pooled Investment Funds	n/a	— none —	— none —	27133
Joint Powers Authority Pool	n/a	—none —	Multiple	53601(p)
Local Agency Investment Fund (LAIF)	n/a	— none —	— none —	16429.1
NRSRO = Nationally Recognized Statistical Rating Organization				

(1) The combination of Mortgage Pass-Through, Asset Backed and Collateralized Mortgage Backed securities may not exceed 20% of the portfolio.
(2) No more than 30% of the agency's money can be invested in deposits, including certificates of deposit through a placement service.
(3) No more than 25 % of the Agency's investment assets under management may be invested in Commercial Paper. Under a provision sunsetting on January 1, 2026, no more than 40% of the portfolio may be invested in Commercial Paper if the Agency's investment assets under management are greater than $100,000,000.

D. Investment Pools: A thorough investigation of an Investment Pool account is required prior to investing, and on a continual basis. The investigation must include information, if available, on the following items before investing:

1. A description of eligible investment securities, and a written statement of investment policy.
2. A description of interest calculations and distribution and how gains and losses will be treated.
3. A description of how the securities are safeguarded (including the settlement process), and how often the securities are priced and the program audited.
4. A description of who may invest in the program, how often and what is the allowable size of deposits and withdrawals, and any limitations as to number of transactions.
5. A schedule for receiving statements and portfolio listings.
6. Are reserves, retained earnings, etc. utilized by the pool?
7. Is the pool eligible for bond proceeds and/or will it accept such proceeds?

E. Repurchase Agreements are legal and authorized by policy. In order to invest in repurchase agreements the City must obtain a signed Master Repurchase Agreement from the participating bank or broker/dealer.

F. Prohibited Investment Transactions and Derivatives:

1. The Government Code specifically prohibits certain types of investment instruments for municipalities. In addition to those prohibitions, the following investments are not permitted:

- **a.** Reverse Repurchase Agreements
- **b.** Financial futures or financial option contracts
- **c.** Security lending
- **d.** Securities with forward settlement date exceeding 45 days from the time of the investment is prohibited.

2. Additionally, the City shall not invest in any security that could result in zero interest accrual if held to maturity. Under a provision sunsetting on January 1, 2026, securities backed by the U.S. Government that could result in a zero- or negative-interest accrual if held to maturity are permitted.

3. Due to the complexity of the securities market and ever-changing market conditions, it is difficult to define derivatives and specifically prohibit their acquisition. Therefore, the City desires to limit the potential risk of derivatives by specifically prohibiting the most common types of derivatives with certain market exposures. These prohibited derivatives include but are not limited to: inverse floaters, interest only securities derived from mortgages, residual securities, structured notes, forward based derivatives, forward contracts, forward rate agreements, futures contracts, interest rate futures contracts, foreign currency futures contracts, option based derivatives, option contracts, interest rate caps, interest rate floors, swap contracts, interest rate swaps, interest rate collars, foreign currency swaps, cross currency exchange agreements, fixed rate currency swaps, basis swaps, equity swaps, fixed rate equity swaps, floating rate equity swaps and commodity swaps.

4. Leveraging

a. The City may not purchase investments on a margin or through a margin account.

b. The General Portfolio may not be leveraged by more than 30% through the issuance of tax and revenue anticipation notes (TRANS). The proceeds of any TRANS issue are to be invested in accordance with the guidelines in this policy, with investment maturities not to exceed the life of the TRANS.

c. The City may not leverage its investments through the use of reverse repurchase agreements.

X. Review of Investment Portfolio

A. The securities held by the City must be in compliance with paragraph IX Authorized and Suitable Investments and paragraph XIV Maximum Maturities at the time of purchase. At least quarterly the City Treasurer shall review the portfolio to identify any securities that do not comply with this policy. The City Treasurer shall establish procedures to report to the City Council major and critical incidences of noncompliance identified as a result of the portfolio review. *(Also see paragraph XIII.E.)*

XI. Collateralization (Reference CA Govt. Code 53601)

A. Bank Deposits: Under provisions of the Government Code, California banks and savings and loan associations are required to secure the City's deposits by pledging government securities with a value of 110% of principal and accrued interest. State law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total deposits.

B. Certificates of Deposit:

1. The market value of securities that underlay certificates of deposit shall be valued at 110% of the market value of principal and accrued interest.

2. The City Treasurer, at his/her discretion may waive the collateral requirement for deposits up to the maximum dollar amount which are covered by the Federal Deposit Insurance Corporation.

C. Repurchase Agreements

1. The market value of securities that underlay certificates of deposit shall be valued at 102% of the market value of principal and accrued interest.

2. The value shall be adjusted no less than weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back to 102% no later than the next business day.

D. A clearly marked evidence of ownership, safekeeping receipt, must be supplied to the City and retained.

E. The City chooses to limit collateral to US Treasuries.

F. Collateral will always be held by an independent third-party with whom the entity has a current written custodial agreement.

G. The right of collateral substitution is granted based on the approval of the City Treasurer and City Manager.

XII. **Safekeeping, Custody and Competitive Bids** (Reference CA Govt. Code 53608)

A. Third-party safekeeping is required for all investments. Securities may be maintained by a banking institution or a broker/dealer firm for safekeeping as long as the securities are held in the City's name.

B. Third-party safekeeping arrangements will be approved by the City Treasurer and will be corroborated by a written custodial agreement.

C. All investment transactions of the City will be conducted using standard delivery vs. payment (DVP) procedures.

D. All securities held by the safekeeping custodian on behalf of the City shall have the City of Moreno Valley as the registered owner, and all interest and principal payments and withdrawals shall indicate the City of Moreno Valley as the payee.

E. All bank deposits will be FDIC insured or deposited with institutions that comply with the State collateral requirements for public funds.

F. Securities used as collateral for repurchase agreements with a maturity from one to seven days can be held in safekeeping by a third party bank trust department or by the broker/dealer's safekeeping institution, acting as the agent for the City, under the terms of a custody agreement executed by the selling institution and by the City specifying the City's "perfected" ownership of the collateral.

G. All investment transactions shall be conducted on a competitive basis with quotes from a minimum of three brokers or financial institutions when possible.

XIII. Diversification and Credit Risk Management

A. Investments contained within the portfolio will be diversified by security type, institution and maturity.

B. The diversification requirements included in Section IX are designed to mitigate credit risk in the portfolio.

C. No more than 5% of the total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies and instrumentalities, Supranational issuers, investment pools and money funds or money market mutual funds.

D. The City may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or City's risk preferences; and,

E. If securities owned by City are downgraded by any nationally recognized statistical ratings organization to a level below the quality required by this Investment Policy, it shall be the City's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.

1. If a security is downgraded, the City Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the economic outlook for the issuer, and other relevant factors.

2. If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported monthly to the City Council.

XIV. Maximum Maturities

A. The City Treasurer will maintain sufficient liquidity in cash and short-term investments, which together with projected revenue receipts will meet the cash flow requirements of the City for the upcoming six months.

B. The City will not directly invest in securities maturing more than five years away from the settlement date. In any case, where a cash flow is matched with an investment which exceeds the five year limit, the investment must be approved by the City Council at least 90 days prior to the purchase of the security(ies).

C. The average weighted maturity of the general portfolio shall not exceed 3 years. The general portfolio does not include bond proceeds or deferred compensation funds.

D. To the extent possible, longer-term investment maturities will be spaced so that a portion of such investments mature each year to cover unanticipated emergencies.

XV. Performance Standards

A. The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints.

B. The investment performance objective for the portfolio shall be to earn a total rate of return over a market cycle which is approximately equal to the return on a market benchmark Index of similar securities, as determined by the City Treasurer.

C. Market Return (Benchmark): The City's investment strategy is active. Given this strategy, the basis used by the Treasurer to determine whether market return is being achieved shall be to identify a benchmark which reflects a portfolio structure that is comparable to the City's portfolio. *An example as it pertains to the long term portion of the portfolio would be the ICE Bank of America Merrill Lynch Index of 1to 5 Year Government securities.*

XVI. **Reporting** (Reference CA Govt. Code 53607 and 53646(b))

A. The City Treasurer will provide a monthly report to the City Manager which will include the following information by security held at the end of the reporting period:

1. Investment Type
2. Issuer
3. Maturity Date
4. Par Value
5. Market Value
6. Book Value
7. Weighted Average Maturity
8. Source of Market Valuation
9. Monies maintained within the treasury
10. Funds, investments and loans that are under the management of contracted parties

B. Quarterly, and within 45 days of the completion of the quarter, the City Treasurer will submit a report to the City Council in open public meeting with the same investment information provided to the City Manager on a monthly basis with the addition of the following data:

1. A description of the compliance with the statement of investment policy, or manner in which the portfolio is not in compliance.

2. A statement denoting the ability of the City to meet cash flow requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

XVII. **Investment Policy Adoption** (Reference CA Govt. Code 53646(a)(2))

A. Annually, the City Treasurer will render to the City Council a Statement of Investment Policy, including any changes or revisions, to be reviewed and approved at a public meeting within 120 days of the end of the fiscal year.

XVIII. **Record Retention**

A. The following investment or cash management documents will be maintained in accordance with Chapter 2.60 of Title 2 of the City of Moreno Valley Municipal Code:

1. Investment Reports and supporting documentation
2. Third-party statements of assets held
3. Investment permanent files
4. Market pricing documentation

INVESTMENT POLICY GLOSSARY

AGENCIES: See U.S. Agency Obligations

ANNUAL COMPREHENSIVE FINANCIAL REPORT: The official annual report for the city. It includes five combined statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP). It also includes supporting schedules necessary to demonstrate compliance with GAAP, finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

ASSET BACKED SECURITIES (ABS): A financial security collateralized by a pool of assets such as loans, leases, credit card debt, royalties or receivables. For investors, asset-backed securities are an alternative to investing in corporate debt. An ABS is similar to a mortgage-backed security, except that the underlying securities are not mortgage-based.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill and the issuer.

BANK/TIME DEPOSITS: A time deposit is an interest-bearing bank deposit account that has a specified date of maturity, such as a certificate of deposit (CD). The deposited funds must remain in the account for the fixed term to receive the stated interest rate. Time deposits are an alternative to the standard savings account, and will usually pay a higher rate of interest.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. (When selling securities, you ask for a bid.).

BROKER/DEALER: An individual or firm that brings buyers and sellers together in a securities transaction.

CALIFORNIA LOCAL AGENCY OBLIGATIONS: Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable. (See negotiable Certificates of Deposit)

CERTIFICATE OF DEPOSIT PLACEMENT AGENCIES: Companies that allow an agency to combine the security of access to FDIC insurance above $250,000 with the convenience of working directly with just one financial institution by parceling out investments to participant banks in keeping with the FDIC requirements.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COLLATERALIZED BANK DEPOSITS: A bank deposit that is collateralized at least 100% (principal plus interest to maturity). The deposit is collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

COLLATERALIZED MORTGAGE OBLIGATIONS (CMO): A type of mortgage-backed security that contains a pool of mortgages bundled together and sold as an investment. Organized by maturity and level of risk, CMOs receive cash flows as borrowers repay the mortgages that act as collateral on these securities. In turn, CMOs distribute principal and interest payments to their investors based on predetermined rules and agreements.

COMMERCIAL PAPER: An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts payable and inventories and meeting short-term liabilities. Maturities on commercial paper rarely range longer than 270 days. Commercial paper is usually issued at a discount from face value and reflects prevailing market interest rates

CORPORATE MEDIUM-TERM NOTE: Corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer acts as a principal in all transactions, buying and selling for his own account.

DELIVERY VERSUS PAYMENT (DVP): Delivery of securities with a simultaneous exchange of money.

DERIVATIVES: Financial products dependent for their value on (or derived from) an underlying financial instrument, a commodity, or an index.

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is at a discount.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits up to$250,000 per deposit.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank. (Also see Agencies)

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages, second loans and fixed- rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest. (Also see Agencies)

FINANCIAL FUTURES/FINANCIAL OPTIONS CONTRACTS: A futures contract is a legal agreement to buy or sell a particular commodity or asset at a predetermined price at a specified time in the future. Futures contracts are standardized for quality and quantity to facilitate trading on a futures exchange. The buyer of a futures contract is taking on the obligation to buy the underlying asset when the futures contract expires. The seller of the futures contract is taking on the obligation to provide the underlying asset at the expiration date.

GOVERNMENT CODE: The Government Code of the State of California.

LEVERAGING: The use of borrowed capital as a funding source when investing to expand the firm's asset base and generate returns on risk capital. Leverage is an investment strategy of using borrowed money—specifically, the use of various financial instruments or borrowed capital—to increase the potential return of an investment. Leverage can also refer to the amount of debt a firm uses to finance assets. When one refers to a company, property or investment as "highly leveraged," it means that item has more debt than equity.

INVESTMENT POOLS: A state or local government pool offered to public entities for the investment of public funds.

LIQUIDITY: A liquid asset can be converted easily and rapidly into cash without a substantial loss.

LOCAL AGENCY BONDS: Bonds issued by the City of Moreno Valley, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.

LOCAL AGENCY INVESTMENT FUND (LAIF): The aggregate of all funds from political subdivisions placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MARKET RATE OF RETURN: A rate of return commensurate with the market for similar securities (maturity, credit rating, duration and liquidity) would be considered a market rate of return.

MATURITY: The date upon which the principal or stated value of an investment becomes due. The investment's term or remaining maturity is measured from the settlement date to final maturity.

MEDIUM TERM NOTES (MTN): A note that usually matures in five to 10 years. A corporate MTN can be continuously offered by a company to investors through a dealer with investors being able to choose from differing maturities, ranging from nine months to 30 years, though most MTNs range in maturity from one to 10 years.

MONEY MARKET MUTUAL FUNDS: Open-ended mutual fund that invests in commercial paper, banker's acceptances, repurchase agreements, government securities, certificates of deposit and other highly liquid securities and pays money market rates of interest.

MORTGAGE PASS-THROUGH SECURITIES: Also called a pass-through, a security created when one or more mortgage holders form a collection (pool) of mortgages and sells shares or participation certificates in the pool. The cash flow from the collateral pool is "passed through" to the security holder as monthly payments of principal, interest, and prepayments. This is the predominant type of MBS traded in the secondary market.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO): Firms that review the creditworthiness of the issuers of debt securities and express their opinions in the form of letter rating categories (e.g. AAA, AA, A, BBB, etc). The primary rating agencies are the following; S&P Global Ratings, Moody's Investor Services, Inc.; Fitch Ratings, Inc. and DBRS, Inc.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers that serve as trading counterparties of the New York Federal Bank in implementing monetary policy. This role includes the obligations to (i) participate consistently in open market operations to carry out U.S. monetary policy under the direction of the Federal Open Market Committee (FOMC) and (ii) provide the New York Federal Banks's trading desk with market information and analysis helpful in the formation and implementation of monetary policy. Primary dealers are also required to participate in all auctions of U.S. government debt and to make reasonable markets for the New York Federal Bank when it transacts for its foreign official account-holders.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond. The city calculates the rate of return based on the purchase price and the interest rate paid by the security when the Investment Report was prepared.

REPURCHASE AGREEMENT (repo): A form of short-term borrowing for dealers in government securities. In the case of a repo, a dealer sells government securities to investors, usually on an overnight basis, and buys them back the following day. (See Reverse Repurchase Agreement)

REVERSE REPURCHASE AGREEMENTS: For the party selling the security and agreeing to repurchase it in the future, it is a repo; for the party on the other end of the transaction, buying the security and agreeing to sell in the future, it is a reverse repurchase agreement.

SAFEKEEPING: A service provided by banks and trust companies when the bank or trust company stores the securities, receives interest payments and redeems issues at maturity.

SECONDARY MARKET: A market made for the purchase and sale of outstanding following the initial distribution.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

SECURITIES LENDING: The act of loaning a stock, derivative or other security to an investor or firm. Securities lending requires the borrower to put up collateral, whether cash, security or a letter of credit. When a security is loaned, the title and the ownership are also transferred to the borrower.

SETTLEMENT DATE: The date that city cash has been exchanged for an investment. This will be considered the date that the investment is owned by the City.

STATE OBLIGATIONS: Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

SUPRANATIONALS: Development banks that share the same goal of providing an improved standard of living in their member countries, but each having different mandates. There are three banks (supranationals) in which California local agencies can invest in their debt obligations: the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC) and Inter-American Development Bank (IADB).

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income returns on an investment, expressed as a percentage. There are nine methods of calculating yield identified by the California Debt and Investment Advisory Commission. The Treasurer shall select the method he or she thinks would be most informative to the reader of the report.

U.S. AGENCY OBLIGATIONS: A low-risk debt obligation that is issued by a U.S. government-sponsored enterprise (GSE) or other federally related entity. Agency securities are issued by GSEs which include the Federal National Mortgage Association (FNMA), Federal Home Loan Bank, Federal Home Loan Mortgage Corporation (FHLMC), the Student Loan Marketing Association (SLMA).

U.S. TREASURY OBLIGATIONS: Debt obligations issued and backed by the full faith and credit of the US government. Because they are considered to have low credit or default risk, they generally offer lower yields relative to other bonds.

U.S. TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

U.S. TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of over 10 years.

U.S. TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of one to 10 years.