

CITY OF SAN LEANDRO

DEBT MANAGEMENT POLICY

Effective March 1, 2018

This Debt Management Policy (the "Debt Policy") of the City of San Leandro (the "City") was approved by the City Council to be effective as of the date first set forth above. The Debt Policy may be amended by the City Council as it deems appropriate from time to time in the prudent management of the debt and capital financing needs of the City.

1. Findings

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

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

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

2. Policies

A. Purposes For Which Debt May Be Issued

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

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

- When the project to be financed is necessary to provide basic services.
- When the project to be financed will provide benefit to constituents over multiple years.
- When total debt does not constitute an unreasonable burden to the City and its taxpayers and/or ratepayers, as applicable.

- When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.

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

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

- The project to be financed must be approved by the City Council.
- The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed by more than 20%.
- The City estimates that sufficient revenues will be available to service the debt through its maturity.
- The City determines that the issuance of the debt will comply with the applicable state and federal law.

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

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

B. Types of Debt

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

- General obligation bonds (GO Bonds)
- Bond or grant anticipation notes (BANs)
- Lease revenue bonds, certificates of participation (COPs) and lease-purchase transactions
- Other revenue bonds and COPs
- Tax and revenue anticipation notes (TRANS)
- Land-secured financings, such as special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, as amended, and limited obligation bonds issued under applicable assessment statutes
- Tax increment financing to the extent permitted under State law

- Conduit financings, such as financings for affordable rental housing and qualified 501(c)(3) organizations

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

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

C. Relationship of Debt to Capital Improvement Program and Budget

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

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

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

The City shall seek to avoid the use of debt to fund infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.

The City shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

D. Policy Goals Related to Planning Goals and Objectives

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

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

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

When refinancing debt, it shall be the policy goal of the City to realize, whenever possible, and subject to any overriding non-financial policy considerations, (i) minimum net present value debt service savings equal to or greater than 3.0% of the refunded principal amount, and (ii)

present value debt service savings equal to or greater than 100% of any escrow fund negative arbitrage.

E. Internal Control Procedures

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

Without limiting the foregoing, the City will periodically review the requirements of and will remain in compliance with the following:

- Any continuing disclosure undertakings entered into by the City in accordance with SEC Rule 15c2-12.
- Any federal tax compliance requirements, including, without limitation, arbitrage and rebate compliance.
- The City's investment policies as they relate to the use and investment of bond proceeds.

Proceeds of debt will be held either (a) by a third-party trustee or fiscal agent, which will disburse such proceeds to or upon the order of the City upon the submission of one or more written requisitions by the Finance Director (or his or her written designee), or (b) by the City, to be held and accounted for in a separate fund or account, the expenditure of which will be carefully documented by the City.

F. Adoption by Related Local Agency

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