

# **City of Garden Grove**

## **DEBT MANAGEMENT POLICY**

**Amended April 2024**

# CITY OF GARDEN GROVE DEBT MANAGEMENT POLICY

## TABLE OF CONTENTS

	<b>PAGE</b>
1. Objectives	1
2. Policy Components .....	1
A. Purpose of Issuance.....	1
B. Types of Debt .....	2
C. Method of Offering .....	6
D. Cost and Fees .....	7
E. Refunding Debt .....	7
F. Debt Limits.....	7
G. Debt Structure .....	8
3. Compliance.....	8
A. Use of Proceeds .....	8
B. Investment of Proceeds.....	9
C. Arbitrage Rebate .....	9
D. Post-Issuance Compliance .....	9
E. Disclosure Requirements .....	10
4. Professional Assistance .....	14

# **CITY OF GARDEN GROVE**

## **DEBT MANAGEMENT POLICY**

This Debt Management Policy (the Policy) is enacted to standardize the issuance and management of debt by the City of Garden Grove and its component units.

The Policy applies to all debt issued by the City and its component units. To ensure the efficient use of the City's resources to meet its commitments and the needs of the citizens, and to maintain sound financial management practices, the Policy may be updated and resubmitted to the City Council periodically. These guidelines are for general use and allow for exceptions under extraordinary conditions.

The Policy is intended to comply with all applicable Government Codes, rules and regulations.

### **1. OBJECTIVES**

The primary objectives of the Policy are:

- Maintain accountability for the fiscal health of the City;
- Enhance transparency of the City's financing programs;
- Attain the best possible credit rating for each debt issue to reduce borrowing costs;
- Select the most cost effective method of debt offering; and
- Preserve financial flexibility and meet capital funding requirements.

Debt, properly issued and managed, is a critical element in any financial management program. It assists in the City's effort to allocate limited resources to provide the highest quality of service to the public. A properly managed debt program promotes economic growth and enhances the vitality of the City of Garden Grove for its residents and businesses.

### **2. POLICIE COMPONENTS**

#### **A. Purpose of Issuance**

The City shall integrate its debt issuance with its Capital Improvement Program (CIP) spending to ensure that planned financing conforms to Council established priorities and the overall impact of the current and future debt burden. This planning considers the long-term horizon, paying particular attention to financing priorities, capital outlays and competing projects.

Long-term borrowing shall be confined to the acquisition and/or construction of capital improvements and shall not be used to fund operating or maintenance costs. For all capital projects under consideration, the City shall set aside sufficient revenue from operations to fund ongoing normal maintenance needs and to provide reserves for periodic replacement and renewal. Capital improvement planning shall be conducted in accordance with the City's comprehensive Infrastructure Funding Policy (Council Policy Number 200-12).

The issuance of debt to fund operating deficits is not permitted. The issuance of short-term cash-flow instruments is excluded from this limitation.

## **B. Types of Debt**

In order to maximize the financial options available to benefit the public, it is the policy of the City to allow for the consideration of issuing all generally accepted types of debt, including, but not exclusive to the following:

- General Obligation (GO) Bonds

General Obligation Bonds are suitable for use in the construction or acquisition of improvements to real property that benefit the public at large. Examples of projects include libraries, parks, and public safety facilities. GO bonds may be considered where there is no other funding source available to meet project costs.

All GO bonds shall be authorized by the requisite number of voters in order to pass.

- Revenue Bonds/Certificates of Participation (COPs)

Revenue Bonds are limited-liability obligations tied to a specific enterprise or special fund revenue stream where the projects financed clearly benefit or relate to the enterprise or are otherwise permissible uses of the special revenue. Generally, no voter approval is required to issue this type of obligation but in some cases, the City must comply with proposition 218 regarding rate adjustments.

The following criteria will be used to evaluate the financing:

- 1) Revenues available for debt service are deemed to be sufficient and reliable for the term of the bonds;
- 2) The project securing the financing is of the type that will support an investment grade credit rating.
- 3) Market conditions present favorable interest rates and demand for the financing.
- 4) The project has been approved by the City Council either through the adopted CIP budget or through City Council actions.
- 5) The project is essential to meet or relieve capacity needs and current resources are insufficient or unavailable.
- 6) The useful life of the project or asset to be financed is at least equal to the term of the bonds to be issued.

This type of obligation is often structured as Lease Revenue Bonds or Certificates of Participation (COP's). If so structured, debt service shall not exceed the fair rental value of the leased asset for the term of the lease.

Lease-Backed Debt does not constitute indebtedness under the State or the City's constitutional debt limit and does not require voter approval. Lease Revenue Bonds may be issued by the Garden Grove Public Financing Authority on behalf of the City.

- Joint Powers Authority (JPA) Revenue Bonds

As an alternative to COPs, the City may obtain financing through the issuance of debt by a joint exercise of powers agency with such debt payable from amounts paid by the City under a lease, installment sale agreement, or contract of indebtedness.

- Loans

The City is authorized to enter into loans, installment payment obligations, or other similar funding structures secured by a prudent source, or sources of repayment.

- Special Assessment/Special District Debt:

The City will consider requests from developers for the use of debt financing secured by property based assessments or special taxes in order to provide for necessary infrastructure for new development under guidelines adopted by City Council, which may include minimum value-to-lien ratios and maximum tax burdens. Examples of this type of debt are Assessment Districts (AD) and Community Facilities Districts (CFD) or more commonly known as Mello-Roos Districts. In order to protect bondholders as well as the City's credit rating, the City will also comply with all State guidelines regarding the issuance of special district or special assessment debt.

- Tax Allocation Bonds

Tax Allocation Bonds are special obligations that are secured by the allocation of tax increment revenues that are generated by increased property taxes in the designated redevelopment area. Tax Allocation Bonds are not debt of the City. Due to changes in the law affecting California redevelopment agencies with the passage of ABX1 26 (as amended, the Dissolution Act) as codified in the California Health and Safety Code, the Garden Grove Agency for Community Development (RDA) was dissolved as of February 1, 2012, and its operations substantially eliminated but for the continuation of certain enforceable RDA obligations to be administered by the Successor Agency to the Garden Grove Agency for Community Development (Successor Agency). The Successor Agency may issue Tax Allocation Bonds to refinance outstanding obligations of the RDA, subject to limitations included in the Dissolution Act.

- Multi-Family Mortgage Revenue Bonds

The City is authorized to issue mortgage revenue bonds to finance the development, acquisition, and rehabilitation of multi-family rental projects. The interest on the bonds can be exempt from Federal and State taxation. As a result, bonds provide below market financing for qualified rental projects. In addition, the bonds issued can qualify projects for allocations of Federal low-income housing tax credits, which can provide a significant portion of the funding necessary to develop affordable housing.

- HUD Section 108 Loan Guarantee Program

The U.S. Department of Housing and Urban Development (HUD) Section 108 Loan Guarantee Program allows cities to use their annual Community Development Block Grant (CDBG) entitlement grants to obtain federally guaranteed funds large enough to stimulate or pay for major community development and economic development projects. The program does not require a pledge of the City's General Fund, only of future CDBG entitlements. By pledging future CDBG entitlement grants as security, the City can borrow at favorable interest rates because of HUD's guarantee of repayment to investors.

- Conduit Financing

The City may sponsor conduit financing for the activities that have a general public purpose and are consistent with the City's overall service and policy objectives, including economic development, housing, and public health. All conduit financing must insulate the City completely from any credit risk or exposure. The City will determine if it is interested in considering a request for conduit financing and establish the ground rules for evaluating the request on a case by case basis with the following criteria and procedures:

- 1) There is a clearly articulated public purpose in providing the conduit financing.
- 2) The applicant is capable of achieving this public purpose.
- 3) The proposed financing meets the City's minimum credit standards for conduit financings.
- 4) The Finance Director in consultation with the City's municipal advisor reviews the proposed terms of the financing to determine if the project is appropriate for City sponsorship and that the proposed financing structure will adequately insulate the City from any and all financial risks.

- 5) The City's bond counsel will review the terms of the financing, and render an opinion that there will be no liability to the City in issuing the bonds on behalf of the applicant.
- 6) Present the evaluation results and recommendation to the City Council for the approval of the conduit financing request.

The City may, at its sole discretion, require additional protections including but not limited to asset appraisals, financial audits of the non-City participants, and additional security.

The City may seek an initial deposit and issuer fee to cover costs relate to such financing and may request for reimbursement if additional costs are incurred.

The City Council may elect to participate in other conduit type financings that are administered by County or statewide financing authorities if it is determined to be in the best interest of the City. As stated above, there must be no liability or risk to the City to participate in these programs. Additional deposits or fees shall be determined by the Finance Director based on the specifics of the financing.

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

### **C. Method of Offering**

The City shall evaluate the best method of sale for each proposed bond issue, including:

- Competitive sale

In a competitive sale, bids for the purchase of the bonds are opened at a specified place and time and are awarded to the underwriter whose confirming bid represents the lowest true interest cost to the City.

- Negotiated sale

When a negotiated sale is deemed advantageous in consultation with the City's Municipal Advisor, the Finance Director shall negotiate the most competitive pricing on debt issues and underwriter discounts in order to ensure the best value to the City. In a negotiated sale, the underwriter may be selected based on a formal RFP process. The City, with the assistance of its municipal advisor, shall evaluate the RFP on prices, interest rates, fees, and discounts. Criteria for selection will be determined on a

case by case basis. No debt issue will be sold on a negotiated basis without an independent municipal advisor.

- Private placement

In certain instances, the City may determine to utilize private placements or offerings to specially defined or otherwise limited investor types, but will only do so in the absence of other avenues for acquiring the required capital in a more cost effective manner or in instances where the purpose is determined to be of significant strategic importance to the City. Any and all private placement offerings which do not include a private placement memorandum (executed by the City) in compliance with Securities and Exchange Commission Rule 15c2-12 prepared by counsel delivery, a 10b5 Opinion, shall require the purchaser(s) to each deliver a "Sophisticated Investor Letter" prepared in a form acceptable to the City's bond counsel where the buyer(s) represent they have completed their own due diligence regarding the investment, have not relied on information provided by the City except as explicitly stipulated therein, and are able and qualified to purchase without an official statement or disclosure document prepared in compliance with federal and/or state securities laws.

#### **D. Cost and Fees**

All costs and fees related to the issuance of debt will be paid out of debt proceeds. An amount will be determined at the time of the issuance to reimburse the City for costs incurred based on the time factors and complexity of the issue.

Where applicable, the annual, recurring costs to the City of administering the debt are charged to the appropriate debt service, enterprise or agency funds.

#### **E. Refunding Debt**

Periodic reviews of all outstanding debt will be undertaken by the Finance Director and the City's municipal advisor to determine refunding (refinancing) opportunities.

The purpose of the refinancing may be to:

- Achieve or monetize debt service cost savings;
- Eliminate restrictive or burdensome bond covenants;
- Restructure debt to shorten the duration of repayment, relieve debt service spikes, reduce volatility in interest rates or free up reserve funds, or
- Alter debt characteristics such as call provisions or payment dates.



Generally, the City shall strive to achieve a minimum of 3% present value savings for a current refunding and a minimum of 5% present value savings for an advance refunding, net of issuance costs. Upon the advice of the Finance Director and with the assistance of a municipal advisor and bond counsel, the City will consider undertaking refundings for other than economic purposes upon a finding that such a restructuring is in the City's overall best financial interest.

#### **F. Debt Limits**

The City will keep outstanding debt within the limits prescribed by State of California statutes and at levels consistent with credit objectives. There is no statutory restriction on the amount of revenue bonds that can be outstanding at any given time. However, each proposed financing will be individually assessed by the Finance Director and subject to the approval of the City Council.

#### **G. Debt Structure**

The City will normally issue debt with an average term of 30 years or less. The structure should approximate level debt service for the term where it is practical. Debt will be structured in such a way as to avoid increasing debt service payments in subsequent years, with the exception of the first and second year of a debt payoff schedule. Variable rate debt may be considered for utility debt when determined to be in the best interest of the City. There will always be at least interest paid in the first fiscal year after debt issuance and principal starting no later than the second fiscal year. Capitalized Interest will not be for a period of more than one year except for a City initiated project where the construction period exceeds one year.

### **3. COMPLIANCE**

When issuing debt, in addition to complying with the terms of this Policy, the City shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds. The Director of Finance has the responsibility to determine and oversee internal control procedures to ensure compliance.

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

- Federal securities law, including any continuing disclosure undertakings under SEC Rule 15c2-12;
- Any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues;

- The City's investment policies as they relate to the investment of bond proceeds; and
- Government Code section 8855(k) and the annual reporting requirements therein.

**A. Use of Proceeds**

The City shall be vigilant in using bond proceeds in accordance with the stated purpose at the time that such debt was issued. Whenever reasonably possible, proceeds of debt will be held by a third-party trustee and the City will submit written requisitions for such proceeds. The City will submit a requisition only after obtaining the signature of the City Manager or the Director of Finance.

**B. Investment of Proceeds**

The City shall comply with all applicable Federal, State and contractual restrictions regarding the investment of bond proceeds. This includes compliance with restrictions on the types of investment securities allowed, restrictions on the allowable yield of invested funds as well as restriction on the time period over which the proceeds may be invested.

**C. Arbitrage Rebate**

Due to the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the City shall contract with an independent consultant for preparation of the arbitrage rebate calculation in accordance with the IRS code and regulations.

The City shall maintain an internal system for tracking expenditure of bond proceeds and investment earnings by each issue with the assistance from its fiscal agent(s).

**D. Post-Issuance Compliance**

Tax-exempt bonds issued by the City retain their tax-exempt status throughout the life of the issue if all applicable federal tax laws are satisfied while the bonds are outstanding. Various requirements apply under the Internal Revenue Code and Income Tax Regulations including information filing and other requirements related to issuance, the proper and timely use of bond-financed property, and arbitrage yield restriction and rebate requirements.

The Finance Director is responsible for ensuring that the rules are met at the time the bonds are issued and throughout the term of the bonds. This

requires coordination and accountability on the part of other City departments with respect to the expenditure of bond proceeds and the continued proper use and operation of the facilities financed. It also requires proper maintenance of records sufficient to establish compliance with all applicable federal tax requirements until three years after the final maturity of the bonds.

Specific written procedures are on file with the Finance Department for the ongoing administration and maintenance of the City's bond issues. These written procedures address the internal control procedures used to ensure that debt proceeds are directed for their intended use.

## **E. Disclosure Requirements**

In offering obligations to the public, and at other times when the City makes certain reports, the City must comply with the "anti-fraud rules" of federal securities laws (the "anti-fraud rules" includes Section 17 of the Securities Act of 1933 [15 U.S.C. § 77a, et seq.] and Section 10(b) of the Securities and Exchange Act of 1934 [15 U.S.C.A. § 78j], and regulations promulgated by the Securities and Exchange Commission under those Acts (particularly "Rule 10b-5" under the 1934 Act at 17 C.F.R. § 240.10b-5).

The core requirement of these rules is that potential investors in obligations must be provided with all "material" information relating to the offered obligations. The information provided to investors must not contain any material misstatements, and the City must not omit material information which would be necessary to provide to investors a complete and transparent description of the obligations and the City's financial condition.

When the City issues obligations, the two central disclosure documents which are prepared are a preliminary official statement ("POS") and a final official statement ("OS"); collectively with the POS, "Official Statement"). The Official Statement includes pertinent information to assist investors in making informed investment decisions regarding the City's obligations.

- Engagement of Outside Disclosure Counsel

The City engages outside legal counsel with expertise in securities laws for advice with respect to the City's disclosure obligations and requirements under the federal securities laws ("Disclosure Counsel"). Disclosure Counsel assists the City in preparing the Official Statement and reviews all new data and updates to the Official Statement. Throughout the process of receiving and incorporating material, Disclosure Counsel provides advice as to standards of materiality and other securities law issues. Disclosure Counsel has a confidential, attorney-client relationship with the City.

Disclosure Counsel provides a negative assurance letter to the underwriters as to the disclosure set forth in the Official Statement for each Obligation. The letter advises the underwriters that, as a matter of fact and not opinion, no information came to the attention of the attorneys working on the transaction which caused them to believe that the Official Statement as of its date and as of the date of their letter (except for any financial, statistical, economic or demographic data or forecasts, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, and other customary exclusions), contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

- Disclosure Process

When the City determines to issue obligations, Department Directors shall commence the preparation of the Official Statement sections for which they are responsible. Additionally, all participants in the disclosure process are separately responsible for reviewing the entire Official Statement.

The Disclosure Counsel and the City's Municipal Advisor shall assist the Finance Director and City Manager in determining the materiality of any particular item, and the development of specific language in the Official Statement. The Finance Director shall manage the process of reviewing the POS and OS, as well as all other disclosure and offering documents, and will send comments to the assigned disclosure counsel for each particular obligation. The drafts of all disclosure and offering documents shall be reviewed by the financing team working group (which includes, City officials, municipal advisor, Bond and Disclosure counsel, the underwriter and the underwriter's counsel) and other assigned parties.

Before distributing a POS to potential investors, there is a formal meeting which includes City officials involved in the preparation of the POS and the underwriters and their counsel, during which the Official Statement is reviewed in its entirety. This is referred to as a "due diligence" meeting.

In connection with the closing of the transaction, one or more senior City officials execute certificates stating that certain portions of the OS do not contain any untrue statements of material information or omit to state any material information necessary to make the statements contained in the OS, not misleading.

- Development of Information for the Obligation

The following principles govern the work of the respective City personnel that contribute information to the disclosure and offering documents:

- City employees involved in the disclosure process are responsible for being familiar with federal securities laws as they relate to disclosure.
- City employees involved in the disclosure process should be instructed to err on the side of raising issues when preparing or reviewing information for disclosure. Officials and other personnel are encouraged to consult with Disclosure Counsel if there are questions regarding whether an issue is material or not.
- The process of updating Official Statements from transaction to transaction should not be viewed as being limited to updating tables and numerical information. While it is not anticipated that there will be major changes in the form and content of the Official Statements, everyone involved in the process should consider the need for revisions in the form, content and tone of the sections for which they are responsible at the time of each update.
- The City must make sure that the particular officials involved in the disclosure process are of sufficient seniority such that it is reasonable to believe that, collectively, they are in possession of material information relating to the City and its finances.

- Training

Periodic training for the personnel involved in the preparation of the all disclosure and offering documents is coordinated by the office of the Finance Director, with the assistance of Disclosure Counsel. These training sessions are provided to identify relevant disclosure information to be included in all disclosure and offering documents. The training sessions also provide an overview of federal laws relating to disclosure, situations in which disclosure rules apply, the purpose of the offering documents (such as, the POS & OS), a description of previous SEC enforcement actions and a discussion of recent developments in the area of municipal disclosure.

- Annual Continuing Disclosure Requirements

In connection with issuing of debt, the City enters into a number of agreements ("Continuing Disclosure Certificates") to provide annual reports related to its financial condition (including its audited financial statements) as well as notice of certain events relating to the Obligations specified in the Continuing Disclosure Certificates. The City must comply with the specific requirements of each Continuing Disclosure Certificate. The City's Continuing Disclosure Certificates generally require that the annual reports be filed within nine months after the end of the City's fiscal

year, and event notices are generally required to be filed within 10 days of their occurrence.

Specific events which require "enumerated event" notices are set forth in each particular Continuing Disclosure Certificate.

The Finance Director is responsible for preparing and filing the annual reports and enumerated event notices required pursuant to the Continuing Disclosure Certificates and for other secondary market disclosures as described under the caption "Secondary Market Disclosure." Particular care must be paid to the timely filing of any changes in credit ratings on obligations (including changes resulting from changes in the credit ratings of insurers of particular obligations).

The City Attorney or Finance Director will provide written notice to the City Council and the Board of Directors of the Authority of any receipt by the City or the Authority of any default, event of acceleration, termination event, modification of terms (only if material or may reflect financial difficulties), or other similar events (collectively, a "Potentially Reportable Event") under any agreement or obligation to which the City is a party and which may be a "financial obligation". If filing on Electronic Municipal Market Access ("EMMA") is required, the filing is due within 10 business days of such Potentially Reportable Event to comply with the continuing disclosure undertaking for the various debt obligations of the City. The Finance Director will notify the City Council and the Board of Directors of the Authority of such events.

The City Attorney or Finance Director will report to the City Council and the Board of Directors of the Authority regarding the execution by the City of any agreement or other obligation which might constitute a "financial obligation" for purposes of disclosure requirements of SEC Rule 15c2-12. The Finance Director shall determine whether such agreement or other obligation constitutes a material "financial obligation". The types of agreements of other obligations that could constitute "financial obligations" and would need to be reported on EMMA include:

- 1) Bank loans or other obligations which are privately placed;
- 2) State or federal loans;
- 3) Commercial paper or other short-term indebtedness for which no offering document has been filed on EMMA;
- 4) Letters of credit, surety policies or other credit enhancement with respect to the City's publicly offered debt;
- 5) Letters of credit, including letters of credit which are provided to third parties to secure the City's obligation to pay or perform (an example

of this is a standby letter of credit delivered to secure the City's obligations for performance under a mitigation agreement);

- 6) Capital leases for property, facilities, fleet or equipment; and
- 7) Agreements which guarantee the payment or performance obligations of a third party (regardless of whether the agreements constitute guarantees under California law).

Types of agreements that could be a "financial obligation" under the Rule include:

- 1) Payment agreements which obligate the City to pay a share of another public agency's debt service (for example, an agreement with a joint powers agency whereby the City agrees to pay a share of the joint powers agency's bonds, notes or other obligations); and
- 2) Service contracts with a public agency or a private party pursuant to which the City is obligated to pay a share of such public agency or private party's debt service obligation (for example, certain types of Public-Private Partnership arrangements).

Additionally, agreements that may be a "financial obligation" subject to the Rule include payments under which are not characterized as an operation and maintenance expenses for accounting purposes if such agreement could be characterized as the borrowing of money.

The Finance Director will continue to work with the City Attorney and Bond and Disclosure Counsel to refine the definition of financial obligation going forward based on future SEC guidance.

- Secondary Market Disclosure

On February 7, 2020, the SEC released a staff legal bulletin (the "Bulletin") concerning secondary market disclosure in the municipal bond market. The Bulletin included SEC views on a variety of matters including, without limitation, the applicability of the federal securities law to public agency websites, reports delivered to governmental and institutional bodies and statements made by public officials including elected board members. Documents, reports and other written statements of the City which contain current financial and operational conditions of the City will be included in a section of the City's website appropriately identified. The City and its Bond and Disclosure Counsel have reviewed the Bulletin and have incorporated certain SEC staff recommendations into this Policy and into disclosure training for staff and City Council members. The City and its Bond and Disclosure Counsel will be cognizant of those reviews and

will consider whether those reviews require the City to make secondary market disclosures.

#### **4. PROFESSIONAL ASSISTANCE**

The City shall utilize the services of independent municipal advisors and bond counsel on all debt financings. The Finance Director shall have the authority to periodically select service providers as necessary to meet legal requirements and minimize cost. Such services, depending on the type of financing, may include municipal advisory, underwriting, trustee, bond counsel, disclosure counsel, verification agent, escrow agent, arbitrage consulting, continuing disclosure, and special tax consulting. Depending upon the circumstances, service providers may be selected through a competitive process when appropriate.