

# **City of Roseville Financial Policies**



**Effective July 1, 2020**

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# City of Roseville Investment Policy

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## I. INTRODUCTION

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities.

The investment policies and practices of the City of Roseville (City) are based on state law and prudent money management. All funds will be invested in accordance with this investment policy and Article 2 of Chapter 4 of the California Government Code. This policy is in compliance with the provisions of the California Government Code, Sections 53600 through 53659, and the authority governing investments for municipal governments.

## II. SCOPE

The investment policy applies to all financial assets of the City as accounted for in the Comprehensive Annual Financial Report (CAFR). Policy statements outlined in this document focus on the City's pooled funds, but will also apply to all other funds under the City's Assistant City Manager/Chief Financial Officer's span of control unless specifically exempted by statute or ordinance.

Proceeds of debt issuance shall be invested in accordance with the permitted investment provisions of their specific bond indentures. If, in the opinion of the City's Assistant City Manager/Chief Financial Officer, matching the segregated investment portfolio of the bond reserve fund with the maturity schedule of an individual bond issue is prudent given current economic analysis, the investment policy authorizes beyond the five year maturity limitation as outlined in this document. The intent to invest in securities with longer maturities shall be disclosed in the permitted investment language authorized by the City Council in an indenture of trust.

The policy does not cover funds held by the Public Employees Retirement System nor funds of the Deferred Compensation program or the Other Post Employment Benefit Trust.

## III. PRUDENCE

The standard of care to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. The "prudent investor" standard states that:

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.

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.

#### IV. OBJECTIVES

The primary objectives, in priority order, of the investment activities of the City shall be:

##### A. Safety

Safety of principal is the foremost objective of the investment program. City investments shall be undertaken in a manner that seeks to ensure preservation of Capital in the portfolio. To further achieve the safety objective, the amount invested in all investment categories is limited to a percentage of the portfolio as defined in the section "VIII. PERMITTED INVESTMENT INSTRUMENTS".

##### B. Liquidity

The investment portfolio of the City will remain sufficiently liquid to enable the City to meet its cash flow requirements.

##### C. Return on Investment

The investment portfolio of the City shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

#### V. DELEGATION OF AUTHORITY

The City Council hereby delegates management responsibility of the investment program to the Assistant City Manager/Chief Financial Officer. The Assistant City Manager/Chief Financial Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The Assistant City

Manager/Chief Financial Officer may delegate investment decision making and execution to the Controller in absence of the Assistant City Manager/Chief Financial Officer. No person may engage in an investment transaction except as provided under the limits of this policy unless specifically exempted by statute or ordinance.

#### VI. ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

#### VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Assistant City Manager/Chief Financial Officer and/or his/her designee will maintain a list of approved financial institutions authorized to provide investment services to the City in the State of California. These may include “primary” dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1. A determination should be made to insure that all approved broker/dealer firms, and individuals covering the public agency, are reputable and trustworthy. In addition, the broker/dealer firms should have the ability to meet all of their financial obligations in dealing with the Public Agency. The firms, and individuals covering the agency, should be knowledgeable and experienced in Public Agency investing and the investment products involved. No public deposit shall be made except in a qualified public depository as established by the established state laws. All financial institutions and broker/dealers who desire to conduct investment transactions with the public agency must supply the Assistant City Manager/Chief Financial Officer with a completed broker/dealer questionnaire and certification of having read the City’s investment policy. In addition, broker/dealers must certify annually of having read the City’s investment policy.

#### VIII. PERMITTED INVESTMENT INSTRUCTIONS

The City shall limit investments in any one non-government issuer, except investment pools, to no more than 5% regardless of security type.

- A. **U.S. Treasury obligations** for which the full faith and credit of the United States are pledged for the payment of principal and interest. Up to 100% of the City’s investment portfolio may be invested in government obligations.
- B. **Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.** This shall include any mortgage pass through security issued and guaranteed by a Federal Agency with a maximum final maturity of five years. Purchase of Federal Agency issued mortgage-backed

securities authorized by this subdivision may not exceed 20% of the City's surplus money; all other investments in Federal Agency securities are unrestricted.

- C. **Obligations of the State of California or any local agency within the state**, including bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency or by a department, board, agency or authority of the state or any local agency, provided that the obligations are rated in one of the two highest categories by a nationally recognized statistical-rating organization (NRSRO). Up to 100% of the City's investment portfolio may be invested in California municipal obligations.
- D. **Registered treasury notes or bonds of any of the other 49 states** in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of these states.
- E. **Repurchase Agreements** used solely as short-term investments not to exceed 30 days. Up to 100% of the City's investment portfolio may be invested in repurchase agreements.

The following collateral restrictions will be observed:

1. Only U.S. Treasury securities or Federal Agency securities, as described in section VIII. PERMITTED INVESTMENT INSTRUMENTS, paragraph (A) and (B) will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to the City's custodian bank by book entry, physical delivery, or by a third party custodial agreement. The total of all collateral for each Repurchase Agreement must equal or exceed, on the basis of market value, 102% of the funds borrowed against those securities. For any Repurchase Agreement with a term of more than one day, the value of the underlying securities must be reviewed on a weekly basis and the value of the underlying securities brought back up to 102% no later than the next business day.
2. Market value must be calculated each time there is a substitution of collateral.
3. The City or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement.
4. The City may enter into Repurchase Agreements only with primary dealers of the Federal Reserve Bank of New York.

5. The City will have specific written agreements with each firm with which it enters into Repurchase Agreements.
  6. Reverse repurchase agreements will not be allowed.
- F. **Banker's Acceptances**, otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank.

Purchases of Banker's Acceptances may not exceed 180 days maturity or 40% of the City's investment portfolio.

- G. **Commercial paper** of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in section "VIII. PERMITTED INVESTMENT INSTRUMENTS", paragraph (G1) or (G2).

1. The entity meets the following criteria:
  - a. Is organized and operating in the United States as a general corporation.
  - b. Has total assets in excess of five hundred million dollars (\$500,000,000).
  - c. Has debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.
2. The entity meets the following criteria:
  - a. Is organized within the United States as a special purpose corporation, trust, or limited liability company.
  - b. Has program wide credit enhancements including, but not limited to, over collateralizations, letters of credit, or surety bond.
  - c. Has commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10% of the outstanding paper of an issuing corporation.

Purchases of commercial paper may not exceed 25% of the City's investment portfolio.



- H. **Medium-term corporate notes** issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S. Medium-term corporate notes shall be rated in a rating category "A" or its equivalent or better by a nationally recognized rating service.

Purchase of medium-term corporate notes may not exceed 30% of the City's investment portfolio.

- I. **FDIC insured or fully collateralized time certificates of deposit.** Purchases of time certificates of deposit in combination with negotiable certificates of deposit may not exceed 30% of the City's investment portfolio.

- J. **Negotiable certificates of deposit or deposit notes** issued by a nationally or state-chartered bank, a state or federal savings and loan association, a state or federal credit union, or a federally-licensed or state-licensed branch of a foreign bank provided that the senior debt obligations of the issuing institution are rated "A" or better by an NRSRO.

The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the money are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency or any person with investment decision making authority in the administrative office manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposits.

All certificates of deposit must be properly collateralized in accordance with Section 53652 of the California Government Code or fully insured by the Federal Deposit Insurance Corporation (FDIC).

Purchase of time certificates of deposit in combination with negotiable certificates of deposit may not exceed 30% of the City's investment portfolio.

- K. **State of California's Local Agency Investment Fund**

The Local Agency Investment Fund (LAIF) portfolio should be reviewed periodically. Investment in LAIF may not exceed the legally authorized limits.

- L. **Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission** under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). To be eligible for investment pursuant to this subdivision these companies shall either: (1) have attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations or (2) have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds and with assets under management in excess of \$500,000,000.

The purchase price of shares of beneficial interest purchased shall not include any commission that the companies may charge and shall not exceed 20% of the City's investment portfolio. Further, no more than 10% of the City's investment portfolio may be invested in shares of beneficial interest of any one money market fund.

- M. **Shares in a California common law trust** established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California that invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State of California, as it may be amended. Up to 100% of the City's investment portfolio may be invested in this investment type.

- N. **Supranationals** are United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated "AA-", its equivalent, or better by an NRSRO.

Purchases of supranationals shall not exceed 30% of the investment portfolio of the City. Supranationals are permitted by California Government Code § 53601 (q) effective January 1, 2015.

- O. **A mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-back certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond.** Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. No more than 20% of the City's surplus funds may be invested in this type of security.

Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only on the date of purchase. Credit criteria listed in this section refers to the credit of the issuing organization at the time the security is purchased. If an investment falls below the minimum purchase rating, the Investment Review Committee will perform a timely review to sell or hold the investment.

**P. Prohibited Investments**

For purposes of this policy, a derivative is defined as any security where the value is linked to or derived from an underlying asset or benchmark. Any security type or structure not specifically approved by this policy is hereby specifically prohibited. The City will not use such derivatives as range notes, dual index notes, inverse floating rate notes, deleveraged notes, or notes linked to lagging indices or to long term indices, nor will the City invest in reverse repurchase agreements, interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity. This policy does not preclude the use of repurchase agreements and callable securities, as they do not fall within the definition of a derivative as described herein.

**Summary of Maximum Percentage Limitations of Investments by Investment Type**

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality at Time of Purchase</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	5 Years	None	None	None
U.S. Agency Securities	5 Years	None	None	None
Forward Delivery Agreements	N/A	A	None	None
Local Agency Bonds	5 Years	None	None	None
Repurchase Agreements	30 days	None	None	None
Bankers' Acceptances	180 days	None	40%	30%
Commercial Paper	270 days	A-1	25%	10%
Medium-Term Notes	5 Years	A	30%	5%
Collateralized Time Deposits	5 Years	None	30%	None
Negotiable Certificates of Deposit	5 Years	A	30%	None
Local Agency Investment Fund (LAIF)	N/A	None	None	LAIF limit
Insured Saving Accounts	N/A	None	None	None
Money Market Mutual Funds	N/A	None	20%	10%
Shares in a California Common Law Trust	N/A	None	None	None
Interest Rate Swaps	N/A	None	None	None
Suprationals	5 Years	AA-	30%	None
Mortgage Pass-Through Securities	5 Years	AA	20%	None

**IX. REVIEW OF INVESTMENT PORTFOLIO**

The securities held by the City must be in compliance with Permitted Investments at the time of purchase. Because some securities may not comply subsequent to the date of purchase, the Assistant City Manager/Chief Financial Officer shall at least annually review the portfolio to identify those securities that do not comply. The Assistant City Manager/Chief Financial Officer shall report major and critical incidences of noncompliance identified through the review of the portfolio.

The Investment Review Committee will meet at least quarterly to discuss the investments in the City's portfolios.

## X. INVESTMENT POOLS

A thorough investigation of any investment pool is required prior to investing and should be monitored on an ongoing basis. The following information should be obtained and analyzed.

- A. A description of eligible of investment securities.
- B. A written statement of investment policies and objectives.
- C. A description of interest calculations and their distribution, and the treatment of gains and losses.
- D. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- E. A description of who may invest in the program, how often, and what size of deposits and withdraws are allowed.

## XI. COLLATERALIZATION

Collateral for Non-negotiable Certificates of Deposit and Negotiable Certificates of Deposit must comply with California Government Code section 53652. In addition, if the Certificate of Deposit is not FDIC insured, collateral is required equal to 110% of principal.

## XII. SAFEKEEPING AND CUSTODY

The City shall take from such financial institution a receipt for securities so deposited. All security transactions, including collateral for repurchase agreements, entered into the City shall be conducted on a delivery-versus-payment (DVP) basis pursuant to the approved custodial safekeeping agreements. The authority of the legislative body to deposit for safekeeping may be delegated by the legislative body to the Assistant City Manager/Chief Financial Officer of the City; the Assistant City Manager/Chief Financial Officer shall not be responsible for securities delivered to and receipted for by a financial institution until they are withdrawn from the financial institution by the Assistant City Manager/Chief Financial Officer.

## XIII. DIVERSIFICATION

The City's investment pool will be diversified to avoid incurring unreasonable and avoidable risks. The investments will be diversified by security type, maturities of those investments, and institutions in which those investments are made.

#### XIV. MAXIMUM MATURITY

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the City to meet all projected obligations while minimizing interest rate risk and maximizing earnings. Unless specified below, the maximum maturity will be no more than five years from purchase date to maturity date.

City Council has granted permission to invest the following fund accounts where liquidity is not the primary investment objective, in Federal Treasury or Agency securities with maturities up to ten years. The specified fund accounts include:

- The City's Pooled Fund, limited to 25% of the total pool
- Citizens' Benefit Trust
- North Central Wetlands Endowment
- Aquatics Complex Maintenance
- Woodcreek West Endowment

#### XV. INTERNAL CONTROLS

The Assistant City Manager/Chief Financial Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, fraud or misuse. An analysis by an external independent accounting firm shall be conducted annually to review internal controls, account activity, and compliance with the investment policies.

#### XVI. PERFORMANCE BENCHMARK

The investment portfolio will be designed to obtain a market rate of return during budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow needs. The Investment Review Committee has elected to use for its performance standard the Constant Maturity Treasury (CMT) Index. For the Pooled Portfolio, the 12 month moving average yield on 3Yr CMT will be used and for Citizens' Benefit Trust portfolio, the 12 month moving average yield on 5Yr CMT will be used. All other City portfolios will follow the 2Yr CMT.

#### XVII. REPORTING REQUIREMENTS

The Assistant City Manager/Chief Financial Officer shall submit monthly investment reports to the City Manager and make these reports available to the City Council in the Finance Department office. The reports shall include, at a minimum, the following information for each individual investment:

- Description of investment instrument
- Issuer name

- Yield on cost
- Purchase date
- Maturity date
- Book value
- Par value
- Current market value
- Transaction activity
- Interest earnings summary

#### XVIII. INVESTMENT POLICY ADOPTION

The City’s investment policy shall be adopted by resolution by the City Council. The policy shall be reviewed annually by the Assistant City Manager/Chief Financial Officer and/or his/her designee and any modifications made thereto must be approved by the City Council.

#### XIX. GLOSSARY

**Agencies** - Federal agency and instrumentality securities.

**Asked** - The price at which securities are offered.

**Bid** - The price offered by a buyer of securities (when one sells securities, one asks for a bid). See “Offer”.

**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.

**Broker-Dealer** – a person or a firm who can act as a broker or a dealer depending on the transaction. A broker brings buyers and sellers together for a commission. They do not take a position. A dealer acts as a principal in all transactions, buying and selling for his own account.

**Certificate of Deposit (CD)** – A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CDs are typically negotiable.

**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.

**Custody** – Safekeeping services offered by a bank, financial institution or trust company, referred to as the “custodian.” Service normally includes the holding and reporting of

the customer's securities, the collection and disbursement of income, securities settlement and market values.

**Delivery Versus Payment** –A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or custodian. It ensures that securities are deposited in an eligible financial institution prior to the release of funds. Securities should be held by a third-party custodian as evidenced by safekeeping receipts.

**Diversification** – Dividing investment funds among a variety of securities offering independent returns.

**Federal Agency Obligation** – A debt instrument issued by one of the federal agencies. Federal agencies are considered second in credit quality and liquidity only to U.S. Treasuries.

**Investment Review Committee** –The investment review committee consists of the City Manager, Assistant City Manager/Chief Financial Officer and members of the Finance Department.

**Liquidity** – An investment that can be converted easily and rapidly into cash without a substantial loss of value.

**Local Agency Investment Fund (LAIF)** – The aggregate of all funds from political subdivisions that are 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 on a specific date.

**Maturity** – The date upon which the principal or stated value of an investment becomes due and payable.

**Money Market Fund** – a type of safe investment comprising a variety of short-term securities with high quality and high liquidity. The fund provides interest to shareholders and must maintain a stable net asset value (NAV) of \$1 per share.

**Offer** - The price asked by a seller of securities (when one buys securities, one asks for an offer). See "Asked" and "Bid".

**Portfolio** – Collection of securities held by an investor.

**Principal** – the original cost of a security. It represents the amount of capital or money that the investor pays for the investment.



**Prudent Investor Standard** – An investment standard that all investments should be made 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.

**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 current income return.

**U.S. Treasury** – Government debt issued by the United States Department of the Treasury through the Bureau of the Public Debt. Treasury securities are the debt financing instruments of the United States federal government, and they are often referred to simply as Treasuries. There are four types of marketable treasury securities: Treasury bills, Treasury notes, Treasury bonds, and Treasury Inflation Protected Securities (TIPS). All of the marketable Treasury securities are very liquid and are heavily traded on the secondary market.

**Yield** - The rate of annual income return on an investment, expressed as a percentage.

**Yield-To-Call (YTC)** - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

**Yield-To-Maturity** - The current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity.

# City of Roseville Debt Management Policy

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## I. INTRODUCTION

The Finance Department of the City of Roseville (the “City”) has developed this Debt Management Policy (the “Debt Policy”) to provide guidelines for the issuance of bonds and other forms of indebtedness to finance necessary land acquisitions, capital construction, equipment, and other items for the City.

While the issuance of debt is frequently an appropriate method of financing capital projects and major equipment acquisitions, such issuance must be carefully monitored to preserve the City’s credit strength and to provide the necessary flexibility to fund future capital needs.

## II. SCOPE

This Debt Policy shall govern, except as otherwise covered by the law, City Charter and City Code, the issuance and management of all debt and lease financings funded in the capital markets. While adherence to the Debt Policy is desired, the City recognizes that changes in the capital markets as well as unforeseen circumstances, may from time to time produce situations that are not covered by the Debt Policy and may require modifications or exceptions to achieve City goals.

The City’s Debt Policy shall be reviewed, and updated if necessary, on an annual basis. The Chief Financial Officer (CFO) with the assistance of the General Accounting staff shall have the responsibility and authority for structuring, implementing and managing the City’s debt and financing program, in accordance with City Council authorizations.

## III. OBJECTIVES

The City has earned some of the highest credit ratings in the nation and as a result receives some of the lowest possible interest rates on its debt. These low interest rates result in a lower overall cost of capital to the City. This Debt Policy will assist the City in determining appropriate uses of debt financing, establish certain debt management goals and assist the City in maintaining its high credit ratings, while assuming a prudent level of financial risk and preserving the City’s flexibility to finance future capital programs and requirements. Additionally, this Debt Policy is intended to set forth criteria for selecting firms to provide certain financial, legal, and other related services that will ensure that a fair and open selection process is used which provides opportunities for all qualified firms, including minority and women owned businesses.

## IV. DEBT ISSUANCE

There are three general methods of issuing debt obligations, a competitive sale, negotiated sale and private placement.

A. Types of Bond Sales

1. Competitive Sale

In a competitive sale, security dealers submit bids either in a sealed bid or electronically secure process and the security dealer with the lowest True Interest Cost (TIC) and in compliance with the bid parameters is awarded the bonds.

2. Negotiated Sale

In a negotiated sale, an underwriter or underwriter syndicate is selected through a Request for Qualifications (RFQ) process or a Request for Proposal (RFP) process. The interest rate and underwriter's fee are negotiated prior to the sale, based on market conditions.

3. Private Placement/Bank Direct Purchase (BDP)

A private placement or bank direct purchase is a sale that is structured specifically for one purchaser, such as a mutual fund or a bank. BDPs are usually quicker and less expensive for municipalities than competitive or negotiated bond sales because they impose fewer requirements on the issuer. The interest rate may be a fixed or variable rate, as agreed between the issuer and purchaser. The term of the bonds may range from under 10 years to 15 years or not much longer, as agreed between the issuer and purchaser. The bonds may or may not be tax-exempt bonds for federal income tax purposes. If the CFO, or his/her designee, determines that it is in the best interest of the City from a cost or administrative standpoint, the Finance Department may negotiate financing terms with banks and financial institutions for specific borrowings.

It shall be the policy of the City to ensure the lowest risk and lowest overall interest rate to the City when issuing debt either through a competitive sale, negotiated sale or private placement, where appropriate. The City shall use the following criteria to determine whether a competitive or negotiated sale should be used.

## B. Issuer Characteristics

### 1. Market Familiarity

A frequent issuer of a well-recognized credit such as general obligation bonds can generally sell these bonds through a competitive sale since investors and underwriters are familiar with the quality of the credit. A negotiated sale may be appropriate if extensive pre-marketing to investors is desired or required.

### 2. Credit Strength

The higher the credit quality of the bonds being issued, the more likely the bonds can be sold using a competitive sale due to the high demand for high quality municipal bonds. High quality credits fare well in competitive sales.

### 3. Policy Goals

A competitive sale does not provide the City with the flexibility of choosing the underwriter or underwriter syndicate. If the CFO concludes that determining the composition of the underwriter syndicate to achieve certain policy objectives is important, then a negotiated sale will be required. However, if the CFO selects the negotiated sale solely for policy reasons then the specific rationale and criteria for selection should clearly be specified.

## C. Financing Characteristics

### 1. Type of Debt Instrument

The market favors familiar debt instruments such as general obligation bonds backed by the full faith and credit of the City. New credit types may require an education process that is more conducive to a negotiated sale until the market becomes comfortable with the credit.

### 2. Issue Size

The size of the bond sale will influence both investor interest in the bonds and the market's ability to absorb the bonds. In general if the bond sale is too small or too large, a negotiated sale may be necessary. A small sale may require greater marketing to garner investor interest while a



large sale may be difficult for the market to absorb without the presale activity available in the negotiated sale process.

### 3. Market Conditions and Timing

During periods of stable interest rates, market timing is not as critical. However, during periods of volatile interest rates, the timing of the sale becomes more critical. Bond refundings are also often very interest rate sensitive in terms of the potential level of savings or the general feasibility of the refunding. The negotiated sale provides more flexibility in terms of the structure of the bond sale as well as the timing of the bond sale and may be more appropriate when issuing refunding bonds and when interest rates are volatile.

### 4. Story Bonds

Bonds that require a detailed explanation due to the complexity of the credit or the repayment of the bonds are often referred to as “Story Bonds”. Due to their complexity and the additional explanation these bonds require, an extensive pre-marketing campaign is necessary. Story Bonds often require a negotiated sale composed of an underwriting syndicate that is qualified to market the bonds in order to obtain the lowest financing cost for the City.

## V. FINANCIAL SERVICE PROVIDERS

### A. Selection

In connection with debt financings, financial advisors, underwriters, and other service providers will be selected from a Qualified Vendors List (QVL) developed through a periodic Request for Qualifications (RFQ) process or, for individual financings, through a Request for Proposals (RFP) process, whichever method is deemed most appropriate given the specifics of the financing. At the discretion of the CFO, contracts may be awarded on a sole source basis if it is clear that an RFQ/RFP process is not feasible or not in the best interest of the City.

For competitive sales, any security dealer meeting the qualification criteria outlined in the competitive bid notice may bid in the competitive sale. For negotiated sales, only those underwriters qualified under the RFQ/RFP process may be selected. Underwriters or underwriter syndicates will be selected by the CFO. The allocation of bonds among syndicate members will be at the sole discretion of the CFO with the approval of the City Manager or his/her designee.

B. Use of Independent Financial Advisors

The City will hire financial advisors who are independent. In the event the best available financial advisor is an investment banking firm, the firm will under no circumstances be permitted to participate as the lead underwriter or as a member of an underwriter syndicate that is bidding on the bonds for which the firm is acting as a financial advisor. In addition, if the firm has any profit sharing or other type of agreement with any member of the underwriting syndicate for the transaction in question, they will not be allowed to act as the financial advisor. In general, no agreement will be permitted that would compromise the firm's ability to provide independent advice or that could be reasonably perceived by the City as a conflict of interest. Advisors must alert the CFO, in writing, of any conflict, potential conflict, or potentially perceived conflict prior to entering into an agreement with the City, or if occurring after entering into an agreement with the City, as soon as the conflict, potential conflict, or potentially perceived conflict arises.

C. Communication/Solicitation

All financial consultants, including all investment banking firms, financial advisors, bond counsel, and other consultants hired in connection with any bond transaction will direct all communications, solicitations and questions to the CFO or his/her designee. Underwriters are reminded that under Rule G-37 of the Municipal Securities Rulemaking Board (MSRB) that a firm may be banned from providing underwriting services to the City for two years for making any political contributions to elected City officials.

VI. DEBT MANAGEMENT PROCESS – TAX STATUS

Prior to the issuance of any bonds, the Finance Department, in conjunction with bond counsel and the City Attorney's Office will evaluate the tax status of any bond sales.

A. Tax-Exempt

Interest on tax-exempt bonds is excluded from the gross income of its owners for federal income tax purposes and from California income taxes and as a result tax-exempt bonds can be sold at a lower true interest cost than taxable bonds. The City, along with bond counsel, will evaluate all projects to be funded to assess their eligibility to be funded by tax-exempt bonds. The City will make every effort to ensure that all tax regulations are complied with to ensure the bonds maintain their tax-exempt status.

B. Taxable

Certain municipal bonds are sold as taxable bonds because they are issued for purposes that the federal government deems do not provide a significant benefit to the public at large or involve “private activity”. In addition, certain tax laws such as the alternative minimum tax (AMT) reduced the tax exemption applicable to certain types of bonds and to certain taxpayers. Taxable bonds will be used whenever a particular project has the potential for private activity or other uses that may call into question the eligibility to use tax-exempt financing.

VII. DEBT MANAGEMENT PROCESS – TYPE OF DEBT

A. Fixed Rate Debt

Longer term debt usually consists of fixed interest rates over the term of the bonds and should be used to finance essential capital facilities, projects and certain equipment where it is appropriate to spread the cost of the project over more than one budget year and generally for a period not to exceed the useful life of the project being financed. In so doing, the City recognizes that future taxpayers who will benefit from the project will pay a share of its cost. Fixed rate debt provides the benefit of fixed payments during the life of the bonds and budget certainties for long-term capital planning. However, fixed rate debt is typically longer term and carries higher interest payments (assuming an upward sloping yield curve) than variable rate debt but is not subject to changes in interest rates. Fixed rate debt is the most common type of debt issued by the City.

B. Variable Rate Debt

The municipal bond market has developed several vehicles by which municipalities can borrow at short-term, variable interest rates. Variable Rate Demand Notes may be issued with interest rates that “reset” daily, weekly, monthly or semiannually at the option of the City. Commercial paper is issued with a maturity of up to 270 days at the City’s option. As the commercial paper matures, it is resold by a commercial paper dealer for another period up to 270 days.

These products are structured as a rolling series of short-term investments and therefore are priced at the short-end of the yield curve at lower interest rates than long-term fixed rate bonds (assuming an upward sloping yield curve). By accepting the risks inherent in variable interest rates, the City can take advantage of the lowest rates available in the current market.

Factors that will be considered in the use of variable rate debt are the availability and size of fund balances to cover variable rate risk, and the budget flexibility of the program being financed. Programs with large complex capital programs may use short-term financing to fund uncertain construction cash flow requirements. The short-term debt can be refinanced as fixed-rate, long term debt once the projects are complete. A project that must be carried in anticipation of grant funding may also be a candidate for the use of variable rate financing. Examples are the Electric, Water, and Wastewater enterprise funds.

C. Use of Alternative Debt Instruments

1. Derivative Products

The use of certain derivative products, such as swaps, swaptions and the sale of call options, allow the City to realize lower all-in costs on a new debt issuance or to receive an upfront payment. One type of swap that may be used would allow the City to issue variable rate debt in exchange for fixed payments that are typically lower than fixed rate debt. However, such products have unique risks that the City and its financial advisors will evaluate as per the City's Swap Policy. The current Swap Policy is included in Appendix A.

VIII. DEBT MANAGEMENT PROCESS – DEBT CAPACITY

The determination of how much indebtedness the City can afford begins by assessing the sufficiency of future revenues. The amount of debt issued is based on the requirements of the approved 5-year CIP, subject to the condition that sufficient revenues are projected to be available. Factors such as debt service coverage requirements outlined in the bond indentures, the impact on the citizens (tax rates), and any impact on the bond ratings will be carefully considered. Different factors are considered for each type of credit. For example, Revenue or Certificates of Participation bonds for electric, water and wastewater bonds will consider the impact on customer utility bills. In the case of general obligation debt, State Statutes and the Constitution limit the amount of debt that a municipality can have outstanding.

IX. DEBT MANAGEMENT PROCESS – SECURITY OF DEBT

A. General Obligation (G.O.) Bonds

G.O. bonds are backed by the full-faith and credit of the City and are secured by secondary property taxes.

B. Revenue Bonds

Revenue bonds are supported solely from fees generated from specific Enterprise Funds. Accordingly, in order to preserve debt capacity and budget flexibility, the City will issue revenue bonds when an identifiable revenue stream can be dedicated to support the payment of debt service. The final maturity of revenue obligations will be determined by the expected life of the project to be financed and the revenues available to repay the debt. The City's various Enterprise Funds – Electric, Water, and Wastewater issue bonds backed by revenues of the enterprise. Revenue bonds are generally issued through the Roseville Finance Authority.

C. Certificates of Participation (COP) Bonds

COP bonds are an instrument evidencing a pro rata share in a specific pledged revenue stream, usually lease payments by the issuer that are typically subject to annual appropriation. The certificate generally entitles the holder to receive a share, or participation, in the payments from a particular project. The payments are passed through the lessor to the certificate holders. The lessor typically assigns the lease and the payments to a trustee, which then distributes the payments to the certificate holders.

D. Housing Bonds

Tax-exempt housing bonds are an important source of capital, providing loans for single-family homeownership and rental housing for very-low, low and moderate-income individuals and families. The relatively low tax-exempt interest rates, combined with federal, state, and local housing assistance programs, provide the necessary subsidy to create a supply of much needed, below market interest-rate loans.

E. Community Facilities District (CFD) Bonds

CFD bonds are issued and backed entirely by a Community Facilities District established under State Statutes for the purpose of managing and financing public improvements within the district boundaries. Any CFDs established in the City are reviewed by the Finance Department and the Finance Department will supervise the issuance of the debt on behalf of the CFD with the CFD paying all costs of issuance including administrative support. The creation of a CFD must be approved by City Council and follow a detailed legal process. Please refer to Appendix B for additional Goals and Policies concerning CFD bonds.

F. Special Assessment Bonds

Special assessment bonds are a special type of municipal bond used to fund development projects that benefit a discrete group of taxpayers within a special assessment district. Principal and interest owed on the bonds is paid from assessments on the property benefiting from the particular bond-funded project. The creation of an Assessment District must be approved by City Council and follow a detailed legal process.

X. DEBT MANAGEMENT PROCESS – PURPOSE OF FINANCING

Generally, financings may be undertaken to fund new projects “new money financing” or to refund existing bonds.

A. New Money Financing

New money issues are those financings that generate funding for capital projects. These funds will be used for necessary land acquisitions, capital construction, equipment, and other items for the City. New money bond proceeds are generally not used to fund operational activities. The City also may use its commercial paper programs to provide interim new money funding. The commercial paper notes are retired upon receipt of bond proceeds from a long-term fixed rate financing.

B. Refunding Bonds

A periodic review of the City’s outstanding debt will be undertaken by the Finance Department to determine refunding opportunities.

Refunding bonds are issued to retire all or a portion of an outstanding bond issue. Most typically this is done to refinance at a lower interest rate to reduce overall debt service. Alternatively, some refundings are undertaken for reasons other than to achieve cost savings, such as to restructure debt service payments, to change the type of debt instruments being used, or to eliminate undesirable covenants.

In any event, a present value savings analysis must be prepared that identifies the economic effects of any refunding being considered by the City. The savings from any particular refunding candidate shall generally be at least 5% of the refunded par amount, net of all transaction expenses. This 5% savings target may be waived by the CFO, or his/her designee, upon a finding that such a refunding is in the City's best overall financial interest and shall not be applicable for refunding transactions that are not solely undertaken to achieve cost savings.

## XI. DEBT MANAGEMENT PROCESS - CREDIT RATINGS

The City seeks to obtain and maintain the highest possible credit ratings for all categories of short- and long-term debt. The City will not issue bonds that do not carry investment grade ratings.

### A. Rating Agency Relationships

The CFO, or his/her designee, shall be responsible for maintaining relationships with rating agencies that assign ratings to the City's various debt obligations. This responsibility shall include coordinating meetings and presentations in conjunction with the issuance of debt. Full disclosure of operations and open lines of communication shall be maintained with the rating agencies used by the City.

### B. Use of Rating Agencies

The City may obtain a rating from at least one nationally recognized rating agency on all new bond issues being sold in the public market. The CFO, or his/her designee, shall determine whether or not any additional ratings will be requested on a particular financing. The CFO, or his/her designee, shall determine which major rating agencies will be asked to provide a rating. Exceptions to this requirement, such as when using a private placement, are permissible, if warranted by the circumstances and approved by the CFO, or his/her designee.

The City and/or the financing team shall notify the rating agencies by telephone or through written correspondence when the City anticipates issuing bonds. Bond documentation shall be sent several weeks prior to the bond sale to the selected rating agencies in order to provide the rating agencies sufficient time to perform their review. A personal meeting with the selected rating agencies may be scheduled if, in the opinion of the CFO, or his/her designee, such a meeting is in the best interest of the City in order to obtain the highest possible credit rating.

The City shall make every reasonable effort to maintain or improve its high quality credit ratings.

The City may request an underlying rating and an insured rating on all bond issues utilizing bond insurance.

The City shall submit its audited comprehensive annual financial report to all rating agencies utilized by the City.

## XII. DEBT MANAGEMENT PROCESS – CREDIT ENHANCEMENT

Although the City has high credit ratings, credit enhancement through the use of bond insurance or a bank facility such as a letter of credit to strengthen the underlying credit rating of certain bonds may be financially beneficial. Bonds insured by insurers rated AAA will also receive the AAA rating and thus be able to be sold at a lower interest rate. Bank facilities, such as letters of credit from highly rated banks, can also be used to provide credit enhancement.

### A. Bond Insurance

Bond insurance will be considered when it provides an economic benefit to a particular bond maturity or entire issue. Bond insurance provides improved credit quality for the bonds as a result of the insurance provider's guarantee of the payment of principal and interest on the bonds. Because of the decreased risk of non-payment, investors are willing to purchase insured bonds at lower yields than uninsured bonds, thus providing the issuer with interest cost savings.

#### 1. Benefit Analysis

The decision to use bond insurance is an economic decision. A benefit analysis compares the present value of the interest savings to the cost of the insurance premium. Insurance will be purchased when the premium cost is less than the present value of the projected interest savings. A copy of the benefit analysis shall be maintained in the files of the Finance Department.

#### 2. Selection

The City or its financial advisor will undertake a competitive selection process when soliciting pricing for bond insurance, or in the case of a competitive sale, facilitating the prequalification of bonds by insurance providers. The City recognizes that all providers may not be interested in providing bids to the City or pre-qualifying the issue. The winning security dealer in a competitive sale will determine whether it will purchase insurance for the issue. For a negotiated sale, the CFO shall have the authority to purchase bond insurance when deemed advantageous and the terms and conditions governing the guarantee are satisfactory.

### B. Bank Facilities (Letters of Credit)

When used for credit enhancement, letters of credit ("LOC") represent a bank's promise to pay principal and interest when due for a defined period of time,



subject to certain conditions. In the case of a direct-pay LOC, the trustee will draw upon the LOC to make debt service payments and the City will reimburse the LOC provider the amount drawn on the LOC by the trustee. A stand-by LOC is used to ensure the availability of funds to pay principal and interest of an obligation only if the funds in the debt service account held by the trustee are insufficient to make the debt service payment on the bonds.

### XIII. DEBT MANAGEMENT PROCESS – STRUCTURAL FEATURES

#### A. Maturity

The final maturity of a bond sale shall be equal to or less than the remaining useful life of the assets being financed, and the average life of the financing shall not exceed 120% of the average useful life of the assets being financed.

#### B. Debt Service Structure

The Finance Department will carefully consider the debt service structure for each bond issue. Factors such as the flow of revenues available for a particular credit, the need to fill in gaps created by refunding specific principal maturities or to structure savings from a refunding in a particular year will be considered. Accelerated repayment may be considered within the bonding capacity constraints to provide capacity for future capital programs. Bonds will be amortized over a period of time not to exceed the useful life of the assets being financed.

#### C. Lien Levels

Senior, Junior and Subordinated Junior Liens for each revenue source will be utilized in a manner that will maximize the most critical constraint - typically either cost or capacity - thus allowing for the most beneficial use of the revenue source securing the bond.

#### D. Capitalized Interest

Subject to Federal and State law, interest may be capitalized from the date of issuance of the debt. Interest may also be capitalized for projects in which the revenue designated to pay debt service on the bonds will be collected at a future date, not to exceed six months from estimated completion of construction. Any use of capitalized interest will require a review by bond counsel and approval by the CFO.

#### XIV. INVESTMENT OF BOND PROCEEDS

The City shall comply with all applicable Federal, State, and Indenture restrictions, if any, regarding the use and investment of bond proceeds. This includes compliance with any restrictions on the types of investment securities allowed, restrictions on the allowable yield of invested funds as well as restrictions on the time period over which some bond proceeds may be invested. The CFO, or his/her designee, will direct the investment of bond proceeds in accordance with the permitted investments for each particular bond issue. Investments such as guaranteed investment contracts may be considered when their use is in the best interest of the City and will be selected on a competitive basis.

#### XV. CONTINUING DISCLOSURE

The City will comply when applicable with Rule 15(c)2-12 of the Securities and Exchange Commission by filing an annual report and annual financial information with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System , and filing material event notices within 10 days of occurrence of certain events as required by the Rule.

#### XVI. ARBITRAGE REBATE

The City shall comply with all arbitrage rebate requirements as established by the Internal Revenue Service and the Finance Department shall establish a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. This effort shall include tracking project expenditures financed with bond proceeds, tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebate earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the City's outstanding tax-exempt debt issues. The CFO, or his/her designee, may enter into agreements with arbitrage service providers to assist the City with complying with arbitrage regulations.

#### XVII. POST ISSUANCE COMPLIANCE

The City shall comply with all applicable laws and regulations to ensure the tax-exempt status of its bonds. The Finance Department shall maintain written procedures to document the processes used to ensure compliance with applicable laws and regulations, and shall specify the positions and individuals responsible for these processes.

**APPENDIX A**

**Swap Policy**

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## I. INTRODUCTION

The swap guidelines outlined herein are only intended to provide general procedural direction regarding the future use, procurement and execution of interest rate swaps and options. These guidelines are intended to relate to various interest rate hedging techniques, including the contractual exchange of different fixed and variable rate payment streams through interest rate swap agreements. The swap policies are not intended in any way to require the City to modify or terminate existing interest rate swaps. The City maintains the right to modify these guidelines and may make exceptions to any of them at any time in its sole discretion. Failure to comply in any manner with these swap guidelines shall not result in liability on the part of the City to any party.

## II. APPROACH AND OBJECTIVES

Interest rate swaps and options are appropriate interest rate management tools that can help the City meet important financial objectives. Properly used, these instruments can increase the City's financial flexibility, provide opportunities for interest rate savings or enhanced investment yields, and help the City manage its balance sheet through better matching of assets and liabilities. Swaps should be integrated into the City's overall debt and investment management guidelines and should not be used for speculation.

Swaps are appropriate to use when they achieve a specific objective consistent with the City's overall financial strategies. Swaps may be used, for example, to lock-in a current market fixed rate or create additional variable rate exposure. Swaps may be used to produce interest rate savings, to alter the pattern of debt service payments, or for asset/liability matching purposes. Swaps may be used to cap, limit or hedge variable rate payments. Options granting the right to commence or cancel an underlying swap may be used to the extent the swap itself is consistent with these guidelines or the City determines there are other advantages to be derived in granting the option; however, the City must determine if the use of any such option is appropriate and warranted given the potential benefit, risks, and objectives of the City. The City's staff, together with its Bond Counsel and its Financial Advisor, periodically shall review the City's swap guidelines and recommend appropriate changes.

In connection with the use of any swaps, the City Council shall make a finding that, per Government Code Section 5922, the applicable swap is designed to reduce the amount or duration of the interest rate risk or result in a lower cost of borrowing when used in combination with the issuance or carrying of the Bonds or enhance the relationship between the risk and return with respect to the City's investments or program of investment, as applicable.

### ***Rationales for Utilizing Interest Rate Swaps and Options***

- A. Optimize capital structure; including schedule of debt service payments and/or fixed vs. variable rate allocations
- B. Achieve appropriate asset/liability match
- C. Reduce risk, including:
  - 1. Interest rate risk;
  - 2. Tax risk; or
  - 3. Liquidity renewal risk
- D. Provide greater financial flexibility
- E. Generate interest rate savings
- F. Enhance investment yields
- G. Manage exposure to changing markets in advance of anticipated bond issuances (through the use of anticipatory hedging instruments)

### **III. PERMITTED INSTRUMENTS**

The City may utilize the following financial products on a current or forward basis, after identifying the objective(s) to be realized and assessing the attendant risks.

- A. Interest rate swaps, including fixed, floating and/or basis swaps; and
- B. Options, including swaptions, caps, floors, collars and/or cancellation or index-based features

### **IV. PROCEDURE FOR SUBMISSION AND EXECUTION**

Unsolicited proposals are to be mailed to the Chief Financial Officer and the Financial Advisor for evaluation. Such unsolicited proposals need to be received four weeks prior to the next City Council meeting for consideration at such meeting. For proposals received within four weeks of the next City Council meeting, the City reserves the right to consider the proposal at the following month's Council meeting.

Legal costs incurred in connection with an unsolicited proposal shall be paid by the firm submitting the proposal if for whatever reason the proposal does not close or should the City elect for any reason not to proceed. If the City elects to proceed with the

proposed transaction and the proposed transaction closes, the City will absorb such legal costs through costs of issuance.

The City staff and the Financial Advisor shall review all unsolicited proposals prior to presentation to the City Council. The City shall only present proposals to the Council that the City, in its sole discretion, believes should be considered further given, for example, the projected savings or other benefits and the ability to meet one or more of the objectives outlined herein. Only proposals that meet the savings guidelines (as described in the “Guidelines for Financing and Selection of the Financing Team”) or that the City staff find compelling for other reasons, shall be presented.

### ***Procurement and Execution***

The City will not have a fixed guideline with respect to swap procurement. The City will assess the benefits of competitively bidding financial products that are non-proprietary or generally available in the marketplace. On a product-by-product basis, the City will have the authority to negotiate the procurement of financial instruments that have customized or specific attributes designed on the City’s behalf.

The use of financial derivative products will be recommended if they meet one of the benefits outlined herein or if they:

- A. Provide a specific benefit not otherwise available;
- B. Produce greater expected interest rate savings or incremental yield than cash market alternatives;
- C. Are not speculative or do not create unreasonable leverage or risk;
- D. Result in an improved capital structure or better asset/liability match; or
- E. Reasonably pass the risk evaluation required by these guidelines

### ***Conformance with Dodd-Frank***

It is the intent of the City to conform this policy to the requirements relating to legislation and regulations for over-the-counter derivatives transactions under Title VII of the Wall Street Transparency and Accountability Act of 2010, as supplemented and amended from time to time (herein collectively referred to as “Dodd-Frank”). Pursuant to such intent, it is the policy of the City that: (i) each swap advisor engaged or to be engaged by the City will function as the designated qualified investment representative of the City, sometimes referred to as the “Designated QIR”; (ii) each swap advisor agrees to meet and meets the requirements specified in Commodity Futures Trading Commission Regulation 23.450(b)(1) or any successor regulation thereto (herein

referred to as the “Representative Regulation”); (iii) each swap advisor provide a written certification to the City to the effect that such swap advisor agrees to meet and meets the requirements specified in the Representative Regulation; (iv) the City monitor the performance of each swap advisor consistent with the requirements specified in the Representative Regulation; (v) the City exercise independent judgment in consultation with its swap advisor in evaluating all recommendations, if any, presented by any counterparty with respect to transactions authorized pursuant to this Debt Policy; and (vi) the City rely on the advice of its swap advisor with respect to transactions authorized pursuant to this Debt Policy and not rely on recommendations, if any, presented by any counterparty with respect to transactions authorized pursuant to this Debt Policy.

### ***Counter-Party Risk Assessment***

The City will only do business with highly rated counter parties or counter parties whose obligations are supported by highly rated parties. The City will structure swap agreements to protect itself from credit deterioration of counter parties, including the use of credit support annexes or other forms of credit enhancement to secure counter party performance. Such protection shall include any terms and conditions which in the City’s sole discretion are necessary or appropriate or in the City’s best interest.

The City shall enter into interest rate swap transactions only with qualified swap counter parties. Qualified swap counter parties are investment banks as will be identified by the Financial Advisor. Qualified swap counter parties should be rated at least “Aa3” or “AA-” by one of the nationally recognized rating agencies (i.e. Moody’s, Standard and Poor’s, and Fitch) and not rated lower than “A2” or “A” by any nationally recognized rating agency. In addition, the counter party must have a demonstrated record of successfully executing swap transactions as well as creating and implementing innovative ideas in the swap market. Each counter party shall have minimum capitalization of at least \$150 million.

The City should not have an immutable credit standard. However, the City will attempt to do business with highly rated counter parties of “Aa3” or “AA-” or better. For lower rated (below “Aa3” or “AA-”) counter parties, the City should seek credit enhancement in the form of:

- A. Contingent credit support or enhancement; or
- B. Collateral consistent with the policies contained herein

## V. SWAP ANALYSIS AND PARTICIPANT REQUIREMENTS

In connection with any swap, the City and its Financial Advisor shall review the proposed transaction and outline any considerations associated with the transaction to the City Council. Such a review should include the following:

- A. The identification of the proposed benefit and potential risks, which shall include, but not necessarily be limited to, those risks outlined herein
- B. Independent analysis of potential savings from a proposed transaction
- C. Fixed versus variable rate and swap exposure before and after the proposed transaction
- D. Market Net Termination Exposure (as outlined herein) for all existing and proposed transactions at the City

### ***Swap Risks***

- A. Counter party Risk – The risk of a payment default on a swap by an issuer’s counter party
- B. Termination Risk - The risk that a swap has a negative value and the issuer owes a “breakage” fee if the contract has to be liquidated
- C. Tax Risk – A mismatch between changes in the rate or price on an issuer’s underlying bonds and the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut, which results in an increase in the ratio of tax-exempt to taxable yields
- D. Basis Risk – A mismatch between the rate on an issuer’s underlying bonds and the rate paid under the swap, e.g. a tax-exempt variable rate issue which trades at 62% of LIBOR while the issuer only receives 60% of LIBOR under the swap
- E. Tax Exemption Risk – The risk that the transaction may make the issuer’s related bonds taxable
- F. Liquidity/Remarketing Risk – The risk that an issuer cannot secure a cost-effective renewal of a Letter or Line of Credit or suffers a failed auction or remarketing with respect to its variable-rate bonds



### ***Benefit Expectation***

Financial transactions, using fixed rate swaps or other derivative products, should generate 2% greater projected savings than the savings guidelines (as described in the “Guidelines for Financing and Selection of the Financing Team”) then in effect for traditional bonds. This threshold will serve as a guideline and will not apply should the transaction, in the City’s sole judgment, help to meet any of the objectives outlined herein. The higher savings target reflects the greater complexity and higher risk of derivative financial instruments. At a minimum, such financial transactions should provide a savings of no less than 5% over refunded par regardless of the spread between the financial transaction and a traditional bond refunding.

For example, assuming a refunding of \$100 million of existing bonds, a traditional fixed rate advance refunding that does not use derivative products would have a present value savings threshold of \$5 million, which is 5% of the refunded par. If the refunding structure utilizes a derivative product, the threshold would be \$7 million in present value savings, 7% of the refunded par. Therefore, the transaction utilizing a swap or other derivative product would have to generate an additional \$2 million to meet the target.

For variable rate or other swap transactions that do not result in a fixed interest rate, the City will evaluate any additional value generated through the transaction in assessing the benefits of proceeding, including the ability to meet the objectives outlined herein. These benefits include, for example, reducing interest rate or tax risk, optimizing the capital structure or further reducing interest expense.

In determining any benefit in implementing a fixed-to-variable swap, the cost of remarketing, in addition to the cost of credit enhancement or liquidity fees must be added to the projected variable rate. Such a calculation should consider the trading performance of comparable bonds and any trading premium resulting from a specific form of credit enhancement or liquidity and/or any impact related to broader industry trends.

## VI. LEGAL AND CONTRACTUAL REQUIREMENTS

Unless otherwise approved by Council, the City will use standard ISDA swap documentation including the Schedule to the Master Agreement and a Credit Support Annex. The City may use additional documentation if the product is proprietary or the City deems in its sole discretion that such documentation is otherwise in its interest.

### ***Terms and Notional Amount of Swap Agreement***

The City shall determine the appropriate term for an interest rate swap agreement on a case-by-case basis. In connection with the issuance or carrying of bonds, the term of the

swap agreement between the City and a qualified swap counter party shall not extend beyond the final maturity date of existing debt of the City on the related Project, or in the case of a refunding transaction, beyond the final maturity of the refunding bonds. For purposes of calculating net exposure, credit shall be given to any fixed versus variable rate swaps that offset termination exposure for a specific Project or bond transaction. For variable rate transactions, credit may also be given for any assets that are used to hedge a transaction as long as in the City's judgment such assets are reasonably expected to remain in place on a coterminous basis with the swap.

Terms and conditions of any swap shall be negotiated by the City in the best interests of the City subject to the provisions of the California Government Code and, unless otherwise waived or altered by the City, these guidelines. The swaps between the City and each counter party shall include, as appropriate, payment, term, security, collateral, default, remedy, termination, and other terms, conditions and provisions as the City, in consultation with its Bond Counsel and Financial Advisor, deems necessary or desirable.

Subject to the provisions contained herein, the City swap documentation and terms should include the following:

- A. Downgrade provisions triggering termination shall in no event be worse than those affecting the counter party
- B. Governing law for swaps will be New York law, but should reflect California authorization provisions
- C. The specified indebtedness related to credit events in any swap agreement should be narrowly drafted and refer only to specific project debt
- D. Collateral thresholds should be set on a sliding scale reflective of credit ratings (see Collateral below)
- E. Eligible collateral as set forth in the Collateral section below.
- F. Termination value should be set by "market quotation" methodology, when the City deems appropriate
- G. The City should only agree to an Additional Termination Event for the City to the extent that the ratings on the applicable the City bonds fall below a ratings trigger acceptable to the City and the counter party and no form of credit support or enhancement is in place

### ***Termination Provision***

All swap transactions shall contain provisions granting the City the right to optionally terminate a swap agreement at any time over the term of the agreement. Such a provision shall be required even if any termination is at market. In general, exercising the right to terminate an agreement should produce a benefit to the City, either through the receipt of a payment from a termination or, if the termination payment is made by the City, in conjunction with a conversion to a more beneficial (desirable) debt obligation of the City.

### ***Collateral***

As part of any swap agreement, the City shall require collateralization or other forms of credit enhancements to secure any or all swap payment obligations. As appropriate, the City, in consultation with its Bond Counsel and Financial Advisor, may require collateral or other credit enhancement to be posted by each swap counter party under the following circumstances:

- A. Each counter party to the City may be required to post collateral if the credit rating of the counter party or parent falls below the “AAA” category. Additional collateral for further decreases in credit ratings of each counter party shall be posted by each counter party in accordance with the provisions contained in the collateral support agreement to each counter party with the City the City. Maximum un-collateralized exposure for: (i) “AAA” rated counter parties is \$40 million; (ii) “AA” rated counter parties is \$10 million; and (iii) below “AA” category, uncollateralized exposure is zero
- B. Threshold amounts shall be determined by the City on a case-by-case basis. The City will determine the reasonable threshold limits for the initial deposit and for increments of collateral posting thereafter
- C. Collateral shall be deposited with a third party trustee, or as mutually agreed upon between the City and the counter party
- D. A list of acceptable securities that may be posted as collateral and the valuation of such collateral will be determined and mutually agreed upon during negotiation of the swap agreement with each swap counter party. A complete list of acceptable securities and valuation percentages are included as Attachment A
- E. The market value of the collateral shall be determined on at least a monthly basis, or more frequently if the City determines it is in the City’s best interest given the specific collateral security

- F. It shall be determined on a case-by-case basis whether other forms of credit enhancement are more beneficial to the City

## VII. LIMITATIONS ON TERMINATION EXPOSURE

In order to diversify the City's counter party credit risk, and to limit the City's credit exposure to any one counter party, limits will be established for each counter party based upon both the credit rating of the counter party as well as the relative level of risk associated with each existing and projected swap transaction. The guidelines below provide general termination exposure guidelines with respect to whether the City should enter into an additional transaction with an existing counter party. The City Council may make exceptions to the guidelines at any time to the extent that the execution of a swap achieves one or many of the goals outlined in these guidelines or provides other benefits to the City.

Such guidelines will also not mandate or otherwise force automatic termination by the City or the counter party. Maximum Net Termination Exposure is not intended to impose retroactively any terms and conditions on existing transactions. Such provisions will only act as guidelines in making a determination as to whether or not a proposed transaction should be executed given certain levels of existing and projected net termination exposure to a specific counter party. Additionally, the guidelines below are not intended to require retroactively additional collateral posting for existing transactions. Collateral posting guidelines are described in the "Collateral" section above. The calculation of net termination exposure per counter party will take into consideration multiple transactions, some of which may offset the overall exposure to the City.

Maximum Net Termination Exposure will be based on the sum of (i) the market value of existing transactions as of the first day of the month prior to the execution of any new transaction plus (ii) the expected worse case termination value of the new transaction. The maximum termination exposure will also be tied to the credit rating of a counter party and whether or not the counter party has posted collateral against this exposure.

Under this approach, the City will set limits on individual counter party exposure based on existing as well as new or proposed transactions. For existing transactions, exposure will be based on the market value as of the last quarterly swap valuation report provided by the Financial Advisor. For a new or proposed transaction, the City will calculate the projected maximum exposure based on the estimated maximum exposure assuming two standard deviations. Standard deviation is a statistic obtained by squaring the average difference from the mean of a distribution of numbers. Two standard deviations capture 95% of the population of a distribution of numbers. For purposes of the calculation, two standard deviations shall be calculated as the annualized standard deviation of weekly swap rates over the preceding 52 weeks. The time period may vary according to market conditions which could range from flat to volatile.

The sum of the existing market value and the projected maximum exposure shall constitute the Maximum Net Termination Exposure. For purposes of this calculation, the City shall include all existing and projected transactions of an individual counter party and all transactions will be analyzed in aggregate such that the maximum exposure will be additive and netted on a per project basis. The rationale behind aggregating and netting on a Project basis is that the exposure will vary for individual members depending on their participation in different projects.

For example, if the City has \$13 million (i.e. the City would owe termination payment) of exposure to a counter party, the Maximum Net Termination Exposure under the definition above, is the projected maximum termination exposure less the outstanding exposure. If projected maximum termination exposure on the proposed transaction, assuming two standard deviations, is \$20 million, net termination exposure would be \$7 million.

The exposure thresholds, which will be reviewed periodically to ensure that they remain appropriate, will also be tied to credit ratings of the counter parties and whether or not collateral has been posted. If collateral has been posted, the City cannot exceed \$30.0 million of collateralized exposure. In addition, there would be a further limit on the amount of uncollateralized exposure, including any threshold amounts under the Credit Support Annex. For AAA-rated counter parties, the City could have up to \$40.0 million of uncollateralized exposure; for counter parties in the AA category, the City could have up to \$10.0 million of uncollateralized exposure and for counter parties below the AA category, the City could have no uncollateralized exposure. If a counter party has more than one rating, the lowest rating will govern for purposes of the calculating the level of exposure. A summary table is provided below.

<b>Credit Ratings</b>	<b>Maximum Collateralized Exposure</b>	<b>Maximum Uncollateralized Exposure</b>	<b>Maximum Total Termination Exposure</b>
AAA	NA	\$40 million	\$40 million
AA Category	\$30 million	\$10 million	\$40 million
Below AA	\$30 million	None	\$30 million

Assuming the same example as above, if the counter party is currently rated “Aa2” and “AA+,” the exposure thresholds would only take effect if Net Termination Exposure increased an additional \$3 million (from the original \$7 million above).

If the exposure limit is exceeded by a counter party, the City shall conduct a review of the exposure limit per counter party. The City, in consultation with its Bond Counsel and Financial Advisor, shall explore remedial strategies to mitigate this exposure.

## VIII. ONGOING MANAGEMENT

The City will seek to maximize the benefits and minimize the risks it carries by actively managing its swap program. This will entail frequent monitoring of market conditions, by both the Financial Advisor and swap counter party, for emergent opportunities and risks. Active management may require modifications of existing positions including, for example:

- A. Early termination;
- B. Shortening or lengthening the term;
- C. Sale or purchase of options; or
- D. Use of basis swaps.

On an overall basis, the City's swap program is not expected to be very large relative to all of its investment and debt activities. Swaps will be used in response to particular market conditions and needs of the City for which swaps are the best investment or debt-management option.

## IX. ONGOING REPORTING REQUIREMENTS

A written report providing the status of all interest rate swap agreements entered into by the City will be provided to the City Council on an annual basis (or other basis, if so directed by Council) and shall include the following:

- A. A description of all outstanding interest rate swap agreements, including project and bonds series, type of swap, rates paid and received by the City, total notional amount, average life of each swap agreement, remaining term of each swap agreement
- B. Highlights of all material changes to swap agreements or new swap agreements entered into by the City since the last report
- C. Termination exposure of each of the City's interest rate swap agreements
- D. The credit rating of each swap counter party and credit enhancer insuring swap payments, if any
- E. If applicable, information concerning any default by a swap counter party to the City, including but not limited to the financial impact to the City, if any
- F. If applicable, information concerning any default by the City to a swap counter party

- G. A summary of swap agreements that were terminated or that have expired
- H. For a swap transaction entered into to generate debt service savings, the City will calculate on an annual basis the actual debt service requirements versus the projected debt service on the swap transaction at the original time of execution. Such a calculation shall include a determination of the cumulative actual savings (or, if applicable, additional payments made by the City) versus the projected savings at the time the swap was executed.

**Attachment A – Acceptable Collateral**

Security	Valuation Percentage
Cash	100%
Negotiable debt obligations issued by the U.S. Treasury Department or the Government National Mortgage Association (“Ginnie Mae”), or (y) mortgage backed securities issued by Ginnie Mae (but with respect to either (x) or (y) excluding interest only or principal only stripped securities, securities representing residual interests in mortgage pools, or securities that are not listed on a national securities exchange or regularly quoted in a national quotation service) and in each case having a remaining maturity of: (i) less than one year (ii) one year or greater but less than 10 years (iii) 10 years or greater	100% 98% 95%
Negotiable debt obligations issued by the Federal Home Loan Mortgage Corporation (“Freddie Mac”) or the Federal Home Loan Mortgage Association (“Fannie Mae”) or (y) mortgage backed securities issued by Freddie Mac or Fannie Mae but excluding interest only or principal only stripped securities, securities representing residual interests in mortgage pools, or securities that are not listed on a national securities exchange or regularly quoted in a national quotation service	95%
Any other collateral acceptable to the City in its sole discretion. The valuation percentage shall be determined by the Valuation Agent from time to time and in its reasonable discretion	The valuation percentage shall be determined by the Valuation Agent from time to time and in its reasonable discretion.

For example, if a counter party is required to post \$1 million of collateral and wished to use bonds issued by Ginnie Mae with five years remaining to maturity, it would be required to post \$1,020,409 (\$1 million/0.98) to satisfy the collateral requirement.



# City of Roseville Budget Development Policy

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## I. INTRODUCTION

This policy outlines the City of Roseville's (City) guidelines for budget development. Consistently following adopted policies will assist the City in achieving its current and future goals in a fiscally responsible and sustainable manner. This policy establishes guidelines for developing the City's annual operating and capital budget as recommended by the Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting (NACSLB). This document shall be reviewed on an annual basis to reflect the highest standards of fiscal management and the City's budgetary goals.

## II. POLICY

### A. Citywide Focus

Consistent with the General Principles of Governance adopted by the City Council in the Elections Ordinance, the City shall maintain a citywide focus during the budget development process and in the adopted budget. Revenues and expenditures shall be budgeted on a citywide basis and not tracked by Council district.

### B. General Revenues

General Fund revenues shall not be earmarked for any particular purpose, unless required by law or Generally Accepted Accounting Principles (GAAP). General revenues shall be deposited in the General Fund and appropriated during the budget process or by a separate Council action.

### C. Balanced Budget

The City shall adopt and maintain a balanced annual operating budget and an integrated capital budget throughout the fiscal year. For each fund, annual expenditures shall not exceed annual revenues plus available fund balances. It shall remain a goal of the City to maintain a long-term structurally balanced budget, where ongoing revenues support ongoing expenditures.

The City will achieve a structurally balanced budget through efficiencies (i.e., streamlining), permanent reductions to the expenditure base (e.g., eliminating lower priority vacant positions and reducing service levels), and ongoing revenue enhancements. In addition, the City's budget will not rely on reserves or the use of one-time revenues for ongoing expenditures.

D. Public Involvement

Public involvement shall be encouraged in the annual budget decision-making process through public hearings, public outreach, and the dissemination of accessible information. Public participation efforts allow the City to improve performance by identifying general needs, priorities, and service delivery expectations. Public involvement enables the City to be more responsive to the community's needs, thereby increasing the value that the public receives from the City.

E. Operating Budget

The operating budget document shall contain the expected revenue and expenditure appropriations, staffing levels, and summaries for each department. Summary information for each department featured in the budget shall include the primary services, strategic goals and strategies, accomplishments and initiatives, and key performance and workload measures. Department summaries shall be updated annually to ensure departments' priorities and performance measures support the City Council's Strategic Plan.

F. Capital Improvement Program (CIP) and Budget

The City shall develop a Five-Year CIP, which reflects a comprehensive approach to addressing the City's capital needs and the identification of resources for those needs. Critical inputs include infrastructure condition assessments, service level evaluations, asset management information, and review of available funding sources. The Five-Year CIP shall be the basis for the development of the annual CIP budget.

The annual CIP budget shall be developed in conjunction with the operating budget to ensure the effective utilization of the City's overall resources to operate and maintain facilities. The annual CIP budget shall include projects that span multiple fiscal years and result in capitalized assets. The CIP budget may consist of other projects of a capital nature that may not result in an asset and that span multiple fiscal years and have significant cost estimates.

The annual CIP budget shall reflect total estimated project costs for Council approved projects by including all prior and current year expenditures and appropriations, future year project costs, and any future funding needs through project completion. CIP projects shall only be established with partial funding if there is a reasonable expectation that the remaining funding is identified to complete the project within a reasonable timeframe for the type of project.

CIP appropriations remaining unspent at the end of each fiscal year shall be carried forward to the subsequent fiscal year until the project is completed or abandoned. CIP projects, however, shall be reviewed periodically to identify projects that are not progressing with funds available for reprogramming.

G. Indirect Cost Allocation Plan

The City shall use an indirect cost allocation plan to allocate the costs of those general government activities without significant assets or liabilities to all City funds and departments, except that reimbursements for costs allocated between General Fund departments will not be budgeted. Substantial changes in the allocable indirect costs may be amortized or smoothed over a period not to exceed three fiscal years to allow receiving funds to adjust their rates.

H. Internal Service Funds

The City shall use internal service funds to allocate general government costs for activities with significant assets and/or liabilities to all City funds and departments. Internal service fund costs are budgeted in and allocated to General Fund departments. The City's internal service fund activities include information technology, fleet management, facilities management, and risk management (general liability and workers compensation).

I. General Fund Five-Year Forecast

The City shall maintain a five-year forecast for the General Fund as an essential fiscal planning tool. The forecast shall be based on the current budget and projections of future expenditures, revenues, and other funding sources over a multi-year period. The evaluation of recommended fiscal actions will focus on a longer-term, rather than short-term context. The five-year forecast is based on a set of point-in-time assumptions. The projected expenditure growth shall be realistic, mainly through the term of the current labor contracts. All revenue forecasts will utilize objective external research and internal forecasting methods. City revenues are economically sensitive, and the five-year revenue forecasts are subject to the same uncertainty and downside risk surrounding national economic forecasts. It is important to note that the City's significant tax revenues, property and sales taxes, trail economic trends.

J. Basis of Budgeting

The City's budgets for governmental funds, such as the General Fund, special revenue funds, debt service funds, and capital project funds, shall be prepared based on the modified accrual basis of accounting. In other words, revenues are recognized in the accounting period in which they become available and

measurable, and expenditures are recognized in the accounting period in which the liability is incurred. An exception to this basis is that disbursements of interfund loans are budgeted as expenditures in lender funds and revenue in borrower funds, and repayments of interfund loans are budgeted as expenditures in borrower funds and revenue in lender funds.

The budget for the City's proprietary funds, consisting of enterprise funds and internal service funds, shall be prepared on the full accrual basis of accounting for all operating revenues and most operating expenses. In other words, revenues are recognized when they are earned, and expenses are recognized when the liability is incurred. Expenses related to long-term assets, primarily capital outlay, and long-term liabilities, including repayment of bonded debt as well as pension and other post-employment benefit expenses, are budgeted on the modified accrual basis of accounting. Repayments of interfund loans are budgeted as expenditures in borrower funds and revenue in lender funds.

The City's budget shall exclude unrealized gains or losses resulting from the change in fair value of investments, as well as amortization of premiums and discounts on the City's investments. These calculations are performed solely for financial statement reporting purposes to comply with GAAP.

# City of Roseville General Fund Reserves Policy

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## I. INTRODUCTION

The purpose of this policy is to establish targeted levels of General Fund reserves, a basic component of a financially strong city. Adequate reserves help sustain City operations when adverse or unexpected circumstances affect the City, providing resources to minimize service disruption in the event of temporary revenue shortfalls, declared disasters, or unpredicted one-time expenditures. This policy establishes the amounts the City will strive to maintain in the Emergency Reserve, Stabilization Reserve, and Litigation Reserve, and the conditions under which the reserves may be used.

## II. BACKGROUND

Financial reserves strengthen the City's financial status and provide valuable resources for managing through economic cycles and addressing unexpected events. Every fund of the City represents a stand-alone financial set of accounts and has its own operating characteristics, financial capabilities, and constraints. The level of reserves needed should be based on the financial and operating characteristics of each fund.

According to the Government Finance Officers Association (GFOA), it is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) in order to protect taxpayers and employees from unexpected changes in financial conditions. GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain an unrestricted budgetary fund balance in their General Fund of no less than two months of regular general fund operating revenues or regular General Fund operating expenditures (an amount equivalent to 16.67% of the annual budget).

This policy establishes three months of operating costs (25% of annual budgeted General Fund operating costs) as the City's target level of reserves. This targeted level of reserves consists of the City's Emergency Reserve (10% of annual budgeted General Fund operating costs) and the City's Stabilization Reserve (15% of annual budgeted General Fund operating costs). This policy also establishes \$250,000 as the minimum level in the City's Litigation Reserve. The policy also outlines the methods the City will utilize to achieve the target reserve levels, defines the conditions under which these funds can be used and describes how the City's expenditure and/or revenue levels will be adjusted to match any new economic realities that are causing the use of fund balance reserves as a financing bridge.

## III. POLICY

### A. Minimum and Target Reserve Levels

The City will maintain an Emergency Reserve at a minimum of 10% of budgeted General Fund operating expenditures. Because the City relies on property tax

and sales tax revenue to support over two-thirds of the City's General Fund budget and the negative effects on property and sales tax revenue can be significant during economic downturns, the City will seek to build up and maintain a General Fund Stabilization Reserve equal to 15% of budgeted General Fund operating expenditures as the target reserve level. The Emergency Reserve and Stabilization Reserve shall be reported as commitments of fund balance in the General Fund for external financial reporting. Appropriations from the Emergency Reserve may only be made by a vote of the City Council to meet a critical, unpredictable financial need such as a declared emergency. Appropriations from the Stabilization Reserve may only be made by a vote of the City Council in the event of temporary revenue shortfalls caused by an economic downturn.

B. Methods to Achieve Funding Levels

Funding of the General Fund Reserves will generally come from the adopted budget, year-end excess revenues over expenditures or anticipated one-time revenues. At a minimum, during the budget process, staff shall review the current and five-year projected reserves to ensure that they are appropriate given the economic and financial risk factors the City faces.

C. Criteria for Expenditure of Reserve Funds

The Reserve Funds shall not normally be applied to recurring annual operating expenditures. Appropriation from the Emergency Reserve and Stabilization Reserve Funds requires approval of at least four City Council members. The Litigation Reserve is appropriated annually in the adopted budget.

1. Emergency Reserve

The Emergency Reserve may be used to contend with significant short-term issues such as declared emergencies. It is the intent of the Council to limit use of the Emergency Reserve to addressing unanticipated, nonrecurring needs.

2. Stabilization Reserve

The Stabilization Reserve may be used strategically to allow time for the City to restructure its operation in a deliberate manner as required in an economic downturn while minimizing service disruption. Use of the Stabilization Reserve will only take place in the context of a Council-adopted long-term plan. The Stabilization Reserve is intended to be used to address significant revenue shortfalls that occur during an economic



downturn until the City's operating expenditure and revenue levels are adjusted to eliminate structural deficits.

3. Litigation Reserve

The Litigation Reserve may be used for legal matters that are unforeseen and/or unusual in nature and, as a result, typically require reactive measures such as seeking a budget adjustment and a funding source. Some examples are contract disputes, municipal code enforcement, and other public safety enforcement matters. The purpose of this reserve is to address these situations by allowing for proactive handling and funding of such matters.

D. Timeline for Replenishment of the General Fund Reserves

If the General Fund Reserves are drawn down below the minimum levels, a plan will be developed and implemented to replenish the reserves. Replenishing the reserves will be a priority use of one-time resources. Generally, the City should seek to replenish the Emergency Reserve and the Litigation Reserve within one year and the Stabilization Reserve to the minimum reserve level within three years.

# City of Roseville

## Capital Improvement Program Rehabilitation Funding Policy

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## I. INTRODUCTION

The City has significant investments in facilities, equipment, software, vehicles, and other assets which require ongoing maintenance and eventual replacement. The CIP Rehabilitation funds, i.e. the General CIP Rehabilitation Fund; the Parks, Recreation and Library Capital Fund; and the Information Technology Replacement Fund, are used to fund infrastructure needs for City buildings, information technology capital replacement, and parks, recreation and library facilities.

## II. BACKGROUND

The City performed a thorough analysis of all City assets in 2012 and developed 10-Year Rehabilitation/Replacement plans. The 10-year plans reflected an annual General Fund funding requirement of \$5.6 million, however the actual amount budgeted in FY2017-18 was \$1.5 million leaving an annual gap of approximately \$4 million

The City performs an annual review of the 10-year plans to develop CIP Rehabilitation budget recommendations for the City Manager that includes a prioritized list of capital projects that can be recommended for funding or deferral in conjunction with the adoption of the City's CIP Rehabilitation budget.

The expectation is that the annual average demand will continue to trend upward based on projects being deferred and new replacement costs.

Addressing these infrastructure needs has been a stated priority of the City Council and was reaffirmed at the City Council meeting on February 7, 2018.

## III. POLICY

On an annual basis during each budget process, and until the annual required funding level is attained, the General Fund contribution to the CIP Rehabilitation funds shall increase by \$500,000.

# City of Roseville Pension Funding Policy

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## I. PURPOSE

The City's Pension Funding Policy documents the method the City will use to determine its actuarially determined contributions to fund the long-term cost of benefits to the plan participants and annuitants. The policy also:

- Provides guidance in making annual budget decisions;
- Demonstrates prudent financial management practices;
- Reassures bond rating agencies; and
- Shows employees and the public how pensions will be funded.

## II. BACKGROUND

The City provides defined benefit retirement benefits through the California Public Employees' Retirement System (CalPERS). CalPERS is a multiple-employer public employee defined benefit pension plan.

All full-time and certain part-time City employees are eligible to participate in CalPERS. CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and their beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute.

The financial objective of a defined benefit pension plan is to fund the long-term cost of benefits provided to the plan participants. In order to assure that the plan is financially sustainable, the plan should accumulate adequate resources in a systematic and disciplined manner over the active service life of benefitting employees. This funding policy outlines the method the City will utilize to determine its actuarially determined contributions to fund the long-term cost of benefits to the plan participants and annuitants.

*Pension Funding: A Guide for Elected Officials*, issued by eleven national groups including the U.S. Conference of Mayors, the International City/County Management Association, and the Government Finance Officers Association, established the following five general policy objectives for a pension funding policy:

- **Actuarially Determined Contributions.** A pension funding plan should be based upon an actuarially determined contribution (ADC) that incorporates both the cost of benefits in the current year and the amortization of the plan's unfunded actuarial accrued liability.

- Funding Discipline. A commitment to make timely, actuarially determined contributions to the retirement system is needed to ensure that sufficient assets are available for all current and future retirees.
- Intergenerational equity. Annual contributions should be reasonably related to the expected and actual cost of each year of service so that the cost of employee benefits is paid by the generation of taxpayers who receives services from those employees.
- Contributions as a stable percentage of payroll. Contributions should be managed so that employer costs remain consistent as a percentage of payroll over time.
- Accountability and transparency. Clear reporting of pension funding should include an assessment of whether, how, and when the plan sponsor will ensure sufficient assets are available for all current and future retirees.

### III. POLICY

#### A. Actuarially Determine Contribution (ADC)

CalPERS actuaries will determine the City's ADC to CalPERS based on annual actuarial valuations. The ADC will include the normal cost for current service and amortization of any under-funded amount. The normal cost will be calculated using the entry age normal cost method using economic and non-economic assumptions approved by the CalPERS Board of Administration.

The City will review the CalPERS annual actuarial valuations to validate the completeness and accuracy of the member census data and the reasonableness of the actuarial assumptions.

#### B. Additional Discretionary Payment (ADP) Contribution

The City will consider making ADP contributions with one-time General Fund resources, with the objectives of increasing the plan's funded status, by reducing the unfunded actuarially accrued liability, and reducing ongoing pension costs.

#### C. Transparency and Reporting

Funding of the City's pension plans should be transparent to vested parties including plan participants, annuitants, the City Council and Roseville residents. In order to achieve this transparency, the following information shall be available:

- Copies of the annual actuarial valuations for the City’s CalPERS plans shall be made available to the City Council.
- The City’s Comprehensive Annual Financial Report shall be published on its website. This report includes information on the City’s annual contributions to the pension systems and their funded status.
- The City’s annual operating budget shall include the City’s contributions to CalPERS.

D. Review of Funding Policy

Funding a defined benefit pension plan requires a long-term horizon. As such, the City will review this policy at least every five years to determine if changes to this policy are needed to ensure adequate resources are being accumulated.

# City of Roseville Other Post-Employment Benefits (OPEB) Funding Policy

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## I. INTRODUCTION

The purpose of this Funding Policy is to state the overall funding goals for the City of Roseville OPEB Trust. The objective is to accumulate sufficient assets to fully finance the retiree healthcare benefits that the retired employees receive throughout retirement. In meeting this objective, the City will strive to meet the following funding goals:

- A. The City plans to continue to fund retiree medical benefits from operations until such a time as those expenses exceed the City's Actuarially Determined Contribution (ADC). At that time withdrawals from the OPEB Trust will be necessary.
- B. The City intends and plans to ultimately achieve full funding of its actuarially determined OPEB contributions by making increasing contributions to the OPEB trust, to the extent feasible, in the context of other competing demands for public services and employee compensation.
- C. Nothing in this funding policy shall constitute an obligation upon the City, nor an implied contract. The City Council may revoke or amend this policy in the best interests of the City.
- D. Funding of the OPEB Trust does not change the City's obligation or intent to fully pay annual medical costs for retirees.

## II. BACKGROUND

The City of Roseville has provided a retiree health benefit to its employees for many years. As a cost reduction strategy, this benefit was eliminated for all bargaining unit employees classified as Tier III. Although eliminated for new employees, this benefit still remains in effect for the majority of the City's employees and must be addressed during the annual budget process.

In an effort to address the long term costs of this expense, a trust was created to begin funding this benefit. The process currently in place is to fund all actual retiree expenses incurred in the current year on a pay-as-you-go basis and make additional contributions to the trust fund.

## III. POLICY

The City will engage an OPEB actuary to determine the City's ADC based on biennial actuarial valuations. The ADC will include the normal cost for current service and amortization of the under-funded liability. The normal cost is the current year cost of the program to provide the benefit for current employees in the future. The normal cost

will be calculated using the entry age normal cost method using appropriate economic and non-economic assumptions approved by the City.

The City will review the actuarial valuations to validate the completeness and accuracy of the employee census data and the reasonableness of the actuarial assumptions. Actuarial valuations involve estimates and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The OPEB Funding Policy is comprised on two components. The first component is calculated as a percentage of total salary for the City. Currently the City funds 6% of salary in the General Fund. The policy requires an increase of 1 percentage point each year until the full actuarially determined contribution is attained.

The second component is calculated as a percentage of one-time monies that may or may not be available at each year end. The actual dollar amount of available one-time funds will be presented to Council with a recommendation as to how much is being recommended for contribution to the trust fund. This recommendation will be based on the dollars available, other competing priorities and Council input.

The City will continue to appropriate in the annual budget for the pay-as-you-go costs of OPEB for current retirees and contributions to the OPEB Trust. On an annual basis during each budget process, and until the full annual required contribution is accomplished, the percentage of salary costs to be deposited into the trust shall increase by 1 percentage point. In addition, a portion of any one-time monies remaining at the end of each fiscal year may be deposited into the trust, which amount will be determined by council based on available funds and other priorities.

Funding OPEB requires a long-term horizon. The City will review this policy at a minimum biennially, coincident with preparation of the actuarial valuations, to determine if changes to this policy are necessary to ensure adequate resources are being accumulated to fund OPEB benefits.

# City of Roseville

## Workers' Compensation and General Liability Funding Policy

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## I. INTRODUCTION

The Workers' Compensation and General Liability Funding Policy documents the City's approach to providing adequate financial resources to fund the City's Workers' Compensation and General Liability Programs and establishing and maintaining adequate reserves in the Workers' Compensation and General Liability Internal Service Funds.

## II. BACKGROUND

The City is self-insured for workers' compensation and for general liability. The Workers' Compensation and General Liability and Programs charge City departments and funds for the costs of providing for claims, as well as for the cost of administering the claims.

## III. POLICY

In order to methodically and consistently measure the City's projected claims, the City will contract with a professional outside actuary to prepare annual actuarial valuation reports for both categories of claims. Program funding will be based on the annual actuarial valuation reports.

The City's funding policy will provide program funding at the 75% confidence level, including recognition of anticipated investment income. Confidence level is used by actuaries to determine the realistic possibilities that a given funding rate will be sufficient to cover all claims that might be incurred in any one program year. A 75% confidence level indicates that the funding rate should be adequate 75% of the time.

If either program maintains a balance above the minimum funding requirement, the excess reserves will be used to subsidize City contributions over a 1-5 year period depending upon the amount of the excess and the City's economic condition.

If either program has excess claims requiring additional contributions to the fund, the City will increase contributions over a 1-3 year period depending on the amount of the shortfall and the City's economic condition to get to the minimum funding requirement.

# City of Roseville Interfund Loans Policy

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## I. PURPOSE

The City's Interfund Loan Policy documents the methods used by the City to demonstrate prudent financial management over interfund loans. The policy:

- Requires City Council approval of interfund loans, except for short-term working capital loans,
- Permits short-term interfund loans for working capital to cover Council-approved reimbursable grants and projects and other temporary timing differences in cash flows, and
- Prohibits interfund loans from being used to solve ongoing structural budget issues or hindering the accomplishment of any function or project for which the lending fund was established.

## II. BACKGROUND

Interfund loans are the lending of cash from one City fund to another for a specific purpose and with a requirement for repayment. The practice of interfund loans is a recognized and necessary aspect of municipal finance. Such loans are typically short-term in nature, and constitute the allocation of resources between individual funds for working capital purposes.

## III. POLICY

### A. Long-term Loans

Interfund loans, other than short-term working capital loans, must be approved by the City Council. Council approval will include the following terms of the loan:

- Purpose of Interfund Loan
- Identification of the source fund
- Availability of unrestricted funds in the source fund
- Review of multi-year plans for use of source fund cash
- Analysis of legal or contractual restrictions
- Repayment of Interfund Loan
- Repayment must have a payment source and funding stream

- Specific repayment schedule
- Interest imposed at a rate equal to at least investment earnings if loan did not occur
- Other Considerations
- Feasibility of repayment
- Internal controls to monitor repayment

B. Short-term Loans

Short-term interfund loans for working capital to provide cash for Council-approved reimbursable grants and projects, are permitted. Short-term working capital loans are also permitted for temporary timing differences in cash flows when expenditures are incurred before revenue is collected. The source funds for working capital interfund loans are the General Fund and the Automotive Replacement Fund.

C. Prohibited Uses

- Interfund loans will not be used to solve ongoing structural budget issues.
- Interfund loans will not hinder the accomplishment of any function or project for which the lending fund was established.

# City of Roseville Request for Proposals (RFP) Policy

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## I. INTRODUCTION

The purpose of this policy is to provide a uniform process for the issuance, evaluation, and selection of competitive proposals for services and/or customized goods.

## II. DEFINITION

Request for Proposals (“RFP”) is a competitive proposal process whereby the City solicits proposals from potential proposers. The RFP process is used for requirements in which the desired outcome is known, but it is difficult to define the methodology or the exact materials or services required to achieve the desired results.

Objectives of the RFP process are to:

- A. Describe the City’s requirements and desired outcomes within a written specification;
- B. Solicit proposers for their proposed solutions;
- C. Describe key criteria to be used in the evaluation of proposals;
- D. Outline the terms and conditions under which the proposer(s) will operate or supply goods and/or services.

The City should use its best efforts to ensure that any RFP is as complete and thorough as possible, however should the scope of work or services of any RFP increase by twenty-five percent (25%) or more after publishing the RFP, that RFP should be withdrawn and any proposals rejected and a new RFP should be issued that includes the increased scope of work or services.

## III. USE OF AN RFP

- A. Contracts for goods or services with an estimated value greater than the amount stated in Roseville Municipal Code (“RMC”) Sections 4.12.090 and 4.12.095 must be awarded by the use of competitive bids or an RFP, unless exempted by the City Council or law. Contracts for goods or services estimated to be equal or less than the amount stated in RMC Sections 4.12.090 and 4.12.095 may be awarded upon conclusion of informal interviews by representatives of the initiating department and other City staff, including the Purchasing Division (“Purchasing”), or by an RFP, as may be appropriate.
- B. Notwithstanding the foregoing, qualifying goods or services may be procured without issuing a RFP. A qualifying good or service is one where there is only a single source for obtaining the particular good and/or service. Examples of sole

source goods or services include, but are not limited to, patented, copyrighted, licensed items, specialized test equipment/facilities, critical schedule requirements, unique services, and standardized goods or services for which there is only a single source. Prior to contracting with a sole source, the initiating department shall complete the sole source authorization form. Furthermore, with respect to professional services with an estimated amount exceeding the amount stated in RMC Sections 4.12.090 and 4.12.095, such services may not be procured through sole source without the prior authorization of the City Manager and City Attorney.

#### IV. PUBLIC NOTICE

Public notice of the RFPs shall be given in the same manner as provided in RMC Section 4.12.090.

The originating department (“Department”) should also generate a list of potential proposers to notify and direct them to the RFP section of the City’s website to access the RFP.

#### V. FORM OF PROPOSAL

- A. City staff must use the City’s latest version of the RFP template for the initial framework of the document and the City’s Purchasing Guidelines should also be referred to. The RFP content should define the Department’s needs and describe the scope of the work, allowing the potential proposer to develop the project details.
- B. Late proposals shall not be accepted, however staff may extend the time for submission of all proposals.
- C. Each proposal must be signed by an authorized representative of the proposer and include the legal name of the proposing organization and the signer’s title. By signing the proposal it is presumed that the signer has authority to bind the proposer to the proposal’s terms.
- D. RFPs are scored based on the criteria presented in the RFP. Proposers may propose any method or process to satisfy the scope of work in the RFP that maximizes responsiveness to the criteria stated in the RFP.

#### VI. EVALUATION FACTORS

Award of a RFP shall be made to the responsible proposer whose proposal is determined, through a formal evaluation panel process, to be the most advantageous to the City after the evaluation panel has taken into consideration the evaluation factors

set forth in the RFP. A master averaged score sheet shall be created based on the evaluation panel's initial evaluation. Proposals shall be scored according to the criteria stated in the RFP.

Proposals submitted will be reviewed by an evaluation panel. Members of the evaluation panel shall be comprised of City staff and at the option of City may include non-City staff upon approval of the City Manager and City Attorney. After the initial evaluation, proposers that have submitted the best and most complete proposals may be invited to one or more interviews. The number of proposers invited to an interview may vary depending upon the number of proposals submitted.

The RFP may indicate the relative importance of evaluation factors. The following are representative evaluation criteria that may be considered by the Department when preparing a RFP:

- A. Reputation and Experience. Does the proposer have a reputation of being reliable, delivering on schedule, and performing tasks to the satisfaction of his/her clients? Does the proposer have sufficient experience in the kind of work required?
- B. Capability and Availability of Staff. Does the proposer have qualified and experienced staff needed to perform the work?
- C. Understanding of the Problem. Does the proposer demonstrate a thorough understanding of the issues and has it developed a relevant and effective approach?
- D. Proximity of the Proposer. Although no preference shall be given to local businesses, proposer's office and/or staff proximity to City of Roseville offices or work location as it relates to the proposer's ability to be responsive to the project requirements may be considered.
- E. Cost. Whenever possible and appropriate, a proposer's fee or hourly rate should be secured as part of the proposal and considered in the evaluation process. Whenever possible, RFPs should specify methods of submitting proposed costs that can be compared directly with competing proposals.

The City reserves the right to make a selection without interviews; therefore, the proposal should be submitted on the most favorable terms that the proposer might propose.

Should the City elect to conduct interviews with any proposers, the following criteria shall be considered and each proposer ranked by the evaluation panel during the interview process:

- Quality of presentation
- Ability to meet the City's business goals
- Communication style

A contract will be negotiated with the proposer considered best meeting the City's need for the project. In the event a mutually satisfactory contract cannot be negotiated with the City's first choice, negotiations may be terminated and commenced with the proposer considered next best in meeting the City's needs for the particular project.

The selected proposer will be required to execute a City prepared contract. The contract may further refine the scope of services and will provide for the terms and conditions of employment.

Evaluation Score Sheets. Upon a request pursuant to section 1.8 below, a proposer is entitled to a master averaged score sheet that reflects the averaged evaluation scores of the proposers during the evaluation panel's initial evaluation and the ranking of proposers from any interview (individual score sheets and/or notes are temporary and are not retained following a determination of the evaluation panel). The master score sheet and ranking shall be prepared by City staff prior to notifying any proposers of the results.

## VII. DISCUSSIONS WITH PROPOSERS AND REVISIONS TO PROPOSALS

- A. As provided in the RFP, discussions may be conducted with responsible proposers. These discussions shall be for the purpose of clarification to assure full understanding of, and responsiveness to the solicitation requirements. The proposers shall be accorded fair and equal treatment with respect to any opportunity for discussion and revision of proposals, and such revisions may be permitted prior to the evaluation panel's determination of the award recommendation for the purpose of obtaining best and final proposals. In conducting discussions, there shall be no disclosure of any information derived from proposals submitted by competing proposers.
- B. After the evaluation panel has determined the proposer(s) to be recommended for award, the Department may enter negotiations with the recommended proposer(s) to finalize proposed services and price before the evaluation panel's formal notice of intent to award is made.

## VIII. AWARD PROCESS

- A. The award is made to the proposer(s) that is determined to best meet the overall needs of the City. For contracts for goods or services with an estimated value greater than the amount stated in RMC Sections 4.12.090 and 4.12.095, the

award of such contract is expressly contingent upon City Council approval and the availability of funds. City staff may not legally bind the City to a contract with an estimated value greater than the amount stated in RMC Sections 4.12.090 and 4.12.095.

- B. Rejection of RFP. The City reserves the right to reject any or all proposals, to waive defects or irregularities in any proposal or in the RFP process, and to offer to negotiate or contract with any proposer(s) in response to any RFP. RFPs do not constitute any form of offer to contract.
- C. Multiple Award. The City reserves the right to award the contract to multiple proposers when applicable.
- D. A formal notice of the intent to award to the recommended proposer(s) shall be made by the Department.

#### IX. PUBLIC DISCLOSURE

In accordance with the California Public Records Act, proposals submitted in response to a RFP, master averaged score sheets from the initial evaluation, and/or rankings from any interview shall be made available upon a public records request only after: (1) the proposal evaluation process is complete, (2) a contract has been negotiated, and (3) notice of intent to award has been made and/or the contract is placed on a City Council meeting agenda.

#### X. PROTESTS

##### A. Protest Requirements

1. Any proposer who is aggrieved in connection with the solicitation or award of a contract may file a protest with the City Clerk's office. The protest must be received in writing by the City Clerk's office within seven (7) calendar days after such aggrieved proposer 1) knows or should have known of the facts giving rise thereto or 2) the date of the notice of intent to award, whichever is sooner. In no event shall a protest be allowed after an award has been made by City Council. If the seventh calendar day falls on a weekend or City holiday, the protesting party may submit the protest prior to close of business on the first business day following such weekend or holiday. Failure to submit a timely protest shall bar consideration of a protest.
2. RFPs must include a notification to prospective proposers of this protest policy.

3. Departments must notify and consult with Purchasing and the City Attorney's Office immediately upon becoming aware of any potential or actual protest. In the event of a proper protest, the RFP process shall be stayed pursuant to Section X (D) of this Policy.

B. Grounds for Protest

1. The alleged grounds for protest shall be limited to the following: (a) computation errors, (b) violations of local, state, or federal law, or (c) the City failed to follow the procedures specified in this Policy.
2. The protest shall state all grounds claimed for the protest and include supporting documentation. Failure to clearly state the grounds for the protest and provide supporting documentation shall be deemed a waiver of all protest rights.

C. Administrative Review

Upon receipt of the protest in accordance with Section X (A), and after determining the protest was properly filed, the Department Director shall provide a copy of the protest to other proposers who might become aggrieved as a result of the protest and issue a written decision within fourteen (14) calendar days after receipt of the protest. The protest will be evaluated by the Department Director, the City Attorney's Office, and the Purchasing Manager. The protesting proposer shall promptly provide any information requested by City staff as part of such investigation. The decision shall either deny or uphold the protest and include reasons for the decision. The written decision shall be final.

D. Stay of Action during a Protest

In the event a protest is filed under Section X, the City shall not proceed further with the award of the contract until the protest is resolved, unless:

1. The City Manager or designee makes a determination that the award of the contract without delay is necessary to protect a substantial interest of the City, or
2. The City decides to reject all proposals and issue a new RFP.