FINANCIAL POLICIES FOR THE CITY OF LOS ANGELES

September 23, 2020

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THE CITY OF LOS ANGELES

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INTRODUCTION

(As amended on January 21, 2020; Council File 19-0600-S171)

The City of Los Angeles enjoys strong credit ratings from each rating agency that tracks the City's credit.[1] These high ratings reflect a variety of factors, including the strength and diversity of the regional economy, moderate City debt levels, and historically strong fiscal management, including the provision of adequate reserves. The City is committed to implementing and maintaining strong financial policies and fiscal stewardship. The City last prepared an update of its financial policies in April 2005. Since 2005, the City has established a Budget Stabilization Fund (BSF), policies related to the BSF, and a General Fund Encumbrance Policy. These comprehensive Financial Policies for the City of Los Angeles (Financial Policies) present these new policies as well as revisions to the existing policies to reflect current best practices.

As part of the City Administrative Officer's (CAO) continuing responsibility to ensure the financial stability of the City, these Financial Policies will be periodically updated and maintained.

[1] The City's current credit ratings can be found at the Debt Management/Investor Relations page of the Office of the City Administrative Officer's website: http://cao.lacity.org/debt/index.htm

SECTION 1
FISCAL POLICIES

OBJECTIVE

The City is supported by various financial resources and must function within the limits of these financial resources each fiscal year. A balance must be maintained between revenues and expenditures so that the public can realize the benefits of a strong and stable local government. It is important to understand that these policies are to be applied over a period of time that extends beyond the current-year appropriations. By law, the annual budget cannot exceed available resources, defined as revenues generated in the current year added to balances carried forward from prior years. Temporary operating deficits measured against current revenue can and do occur, but they will not be tolerated as extended trends. The City cannot develop a legacy of operating deficits or a legacy of using one-time revenues for ongoing expenditures and expect either to achieve structural balance or to continue the delivery of high quality services to City residents.

POLICIES

<u>Structurally Balanced Budget</u>

1. The City's goal is to achieve and maintain a structurally balanced budget in which future costs are projected to be fully paid by future revenues.

2. Current appropriations for all funds are limited to the sum of available cash balances and revenues estimated to be received in the current budget year.

3. Expenditures for mandated and priority programs are to be made against current revenue sources and not dependent upon uncertain reserves or fluctuating prior-period cash balances.

4. The City will avoid using one-time revenues to fund ongoing programs or services. The use of unencumbered prior-year balances in all funds as well as all other one-time revenues shall be scrutinized and carefully limited to be used primarily for one-time expenditures. One-time expenditures are defined as those that have a clearly recognized termination date connected to the completion of the identified purpose of the expenditure, even if the expenditure crosses multiple fiscal years.

5. To the extent possible, current operations will be funded by current revenues.

6. Multi-year General Fund operating cost projections, which forecast revenues and expenditures, shall be prepared and updated each year, or as necessary, to identify and evaluate the financial condition of the City over a four year period, at a minimum. This forecast shall be reported to the City Council as part of the annual budget development process. Projections shall be developed using available data, historical trends, and an evaluation of anticipated future impacts to revenues and expenditures. Departments shall prepare a forecast for each major special fund and special fund facing structural imbalance that they administer and present it with their annual budget request.

7. When initiating multi-year projects or adding new items to the budget with future-year expenditure requirements, the City shall consider its ability to continue to pay these future year expenses.

8. New and expanded unrestricted revenue sources should be first applied to support existing obligations prior to funding new programs. This in no way precludes the City from terminating existing programs for any reason, including for the purpose of making resources available for new programs.

9. The City will pursue federal, state, and private grants but will carefully analyze the need for, and availability of, required financial support of these programs beyond grant funding. Any such financial support must be reported at the time that the City considers accepting the grant. Financial support includes, but is not limited to, an obligation for a current or ongoing City match and a need to maintain a service level following the termination of the grant.

<u>Performance Budgeting</u>

10. Departments are encouraged to develop strategic plans that state how and when the City will achieve organizational goals and the resources that will be required and available to do so. Strategic plans should also identify the data that will be used to measure progress toward these goals.

11. Budget documents shall present information illustrating the resources used to achieve organizational goals.

12. Budgetary decisions shall be informed by data that measures the City's delivery of services against established targets for performance.

<u>Employee Costs</u>

13. The City shall evaluate accurate and thorough employee compensation and count data when budgeting for employee-related costs.

14. All position authorities shall be supported by funding. Full funding for all positions in the budget, however, is not required if it can be demonstrated that a department is unlikely to be fully staffed throughout the fiscal year.

15. The City Administrative Officer, or the employee authorized by the CAO to act in that capacity, shall be designated as the City's management representative in formal relationships with recognized employee organizations. [2] In addition to the other components of this role, the CAO must report to the Mayor and City Council on the potential costs of employee agreements, including but not limited those from salaries, retirement, and other benefits.

Budget Control

16. The City will consider requests for new or expanded programs during the course of the annual budget development process. Only in extreme circumstances will such requests be considered on an interim basis during the course of the fiscal year.

17. Changes to budget appropriations during the fiscal year shall be limited and subject to the review and approval of the Mayor and the City Council.[3]

Revenues

18. The City will continuously seek new revenues and pursue a diverse revenue base in order to limit the impact to the City from short-term fluctuations in any one revenue source.

19. Any tax-rate reduction or exemption for any General Fund or special fund revenue source shall only be approved as a temporary adjustment with a sunset clause. Permanent reductions or exemptions should not be implemented due to State tax-rate restrictions that prohibit increasing tax rates without voter approval.

20. Unrestricted General Fund revenue streams shall not be designated as restricted or special funds. This is no way precludes the City from making appropriations from unrestricted revenues to achieve specific policy goals either as part of the budget process or during the fiscal year.

21. City actions that may result in a reduction in revenue during the fiscal year shall be limited and subject to the review and approval of the Mayor and City Council. Expenditure reductions must be identified to fully offset any such revenue reduction.

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[2] Los Angeles Administrative Code Section 4.870(a)(1).

[3] Los Angeles City Charter Section 342 and Section 343; Los Angeles Administrative Code Section 5.35 and Section 5.36.

Fees for Service

22. The City will charge fees for services where such an approach is permissible by state and federal law, and where a group of beneficiaries who can pay such fees is identifiable. For the purposes of these provisions, fees for service are those set by the City in amounts no more than the reasonable cost of providing the service in accord with California Constitution, Article 13C, Section 1(e)(1), (e)(2), and (e)(3).

23. Sufficient fees for service shall be levied based on the reasonable cost of providing the service for which they are charged, including the operating (direct and indirect), capital, and appropriate projected future costs. All fees for service for the City shall be monitored annually to determine that rates meet, but do not exceed the reasonable cost of providing the service. If a current or proposed fee is not recovering the reasonable cost of providing the service, the department that administers that service shall consider proposing a new fee that is based on the reasonable cost of the service as part of its annual budget submission.

24. If, upon careful review of policy considerations, the Mayor and City Council determine to set the amount of a fee for service below the level required to recover the reasonable cost of providing that service, the Mayor and City Council must take specific action to appropriate the necessary funds to fully pay for that service. The amount of any such appropriation shall be reported annually through the budget process.

25. In rare circumstances, when permitted by law and based on a finding of clear public benefit, the City Council may decide to waive fees for service for an individual user. If the fee to be waived is for a service funded through a source of funds generated by the collection of that fee, a General Fund appropriation may be required to prevent other service users from improperly subsidizing such fee.

Special Funds

26. Special funds are supported by special levies and fees, grants, or intergovernmental revenues. Expenditures in these funds are strictly limited to the mandates of the funding source. Special funds are not to be used to subsidize other funds, except as required or permitted by program regulations.

27. Enterprise funds are a subset of special funds that derive 100 percent of their revenues from charges, user fees, and interest. Functions that are funded using enterprise funds should be 100 percent self-supporting through annual reviews of their fee structures, charges for services, and other operating revenues and expenditures.

28. It shall be the goal for all special funds to fully reimburse the General Fund for all direct expenditures and related costs provided to support their programs. Related cost reimbursements shall be calculated using the most current Cost Allocation Plan rate, unless otherwise restricted by an ordinance or policy that has been approved by the Mayor and City Council. In the event that a special fund does not fully reimburse the General Fund, any remaining subsidy shall be reported annually through the budget process.

29. Special fund administrators are encouraged to establish a reserve policy for their funds where permitted and appropriate. These policies should set a target minimum reserve level that accounts for the unique characteristics and risks to the fund. The policies should also establish the appropriate uses of the reserves and set a timeframe both for meeting reserve targets if they have not yet been achieved and for replenishing reserves should they fall below the target minimum level.

30. Special fund administrators must regularly evaluate and manage the balances within the fund to ensure that they are spent timely to achieve the fund's intent.

<u>Transparency</u>

31. Due to the scale, scope, and complexity of the City's finances, in order to further transparency and thus facilitate public participation, the City will publish clear and accurate budgetary and financial documents highlighting significant components including salaries, pensions and other benefits, capital projects, contracts, and equipment purchases.

32. Reports to the Mayor and City Council shall include Fiscal Impact Statements that include the full cost of the program or service in the current year, plus the future annual costs.

33. Reports to the Mayor and City Council shall include a statement that is easily identifiable indicating whether or not the requested action complies with the City's adopted financial policies. To the extent possible, City Council motions with financial impacts shall also be evaluated for compliance with the financial policies.

34. The CAO shall prepare periodic reports to the Mayor and City Council regarding the condition of the current year's budget. These reports will forecast year-end expenditure and revenue balances, identify major issues of concern facing the current year's budget, and recommend necessary budgetary adjustments.

Disposition of Assets

35. Any surplus equipment and vehicles will be sold at current market rates. The City Council may make exceptions to this policy as delineated in the Administrative Code[4] to achieve public policy objectives, avoid a financial loss, or support a Sister City or otherwise designated government.

36. Disposition of any real property not required for City use must be in accordance with Government Code Section 54220 and at fair market value. The City's Asset Evaluation Framework provides the parameters for this process. The City Council may make exceptions to this policy for non-profits and governmental entities that are furthering the work provided by the City subject to a community benefits analysis that concludes that the value of the proposed services meets or exceeds the fair market value of the property.

Asset Management

37. The City shall make adequate investments to maintain real property and equipment at appropriate levels.

Liabilities

38. As a primarily self-insured entity, the City must set aside funding each year for judgments and settlements that require payments on claims made against the City. Therefore, the budget shall include an appropriation to the Liability Claims Account for this purpose.

39. The CAO, in collaboration with the City Attorney, shall report periodically on payments made on claims by City department and type of case.

[4] Los Angeles Administrative Code Section 22.547.

SECTION 2
CAPITAL AND TECHNOLOGY IMPROVEMENT POLICY
(As amended on May 3, 2020; Council File 19-1353)

INTRODUCTION

The City of Los Angeles is responsible for the planning, development, acquisition, construction, and maintenance of critical capital and technology infrastructure that ensures the health, safety, and well-being of its residents. The City's investment in these assets and infrastructure is essential to promote and improve its ongoing economic development and vitality.

Pursuant to the Administrative Code, Chapter 3, Article 1, the City Administrative Officer (CAO) is responsible for developing an Annual Capital Improvement Expenditure Program. The City will use the development of its annual program as the basis for an enhanced, coordinated approach on infrastructure planning that includes technology infrastructure projects. The revised approach will be known as the annual Capital and Technology Improvement Expenditure Program (CTIEP) and will be incorporated into the annual City budget development process.

Furthermore, in order to make sound and informed decisions regarding projects with costs that span multiple years, the City will quantify and capture, to the extent possible, project costs over a five-year term. This information will be presented as a five-year Capital and Technology Improvement Plan (CTIP) that will be updated on an annual basis, incorporating the approved projects within the annual CTIEP, with year one of the five- year CTIP to correspond with the annual CTIEP.

OBJECTIVE

This policy creates the framework to:

- Enable elected officials and City departments to submit capital and technology funding requests in a systematic and transparent process;
- Determine annual appropriations based on prioritization criteria;
- Establish a governance structure for the purpose of overseeing project progress, and for the approval of interim funding requests; and,
- Collect data and measure the effectiveness of this policy and its impact on the City's capital and technology infrastructure.

POLICIES

1. Annual Plan Updates

   1.1 The CAO will submit the proposed annual CTIEP for funding or other consideration in conjunction with the Mayor's Proposed Budget. The Mayor and Council's approval of the budget and concurrent approval of the annual CTIEP will provide appropriations to the approved individual projects for one fiscal year.

   1.2 The adopted annual CTIEP will list the capital projects approved by the Mayor and Council for funding and, combined with projects receiving grant awards, will represent the projects within the first year of the updated five-year CTIP.

   1.3 Each year, the five-year CTIP will be updated and released after the annual CTIEP has been approved. The information contained in the five-year CTIP will include project descriptions, total cost estimates, project costs over the next five years based upon the construction and implementation schedule, potential funding sources for the project, and project ranking based on the prioritization criteria.

2. Annual Investment

   2.1 The City shall, to the extent feasible, invest an annual minimum target of 1.5 percent of the General Fund revenue for new capital projects, maintenance of its existing assets, and information technology (IT) improvements in annual amounts consistent with the policies adopted by Mayor and Council.

   2.2 The percentage will be adjusted periodically as additional metrics, including the rate of return on the City's investment, become available to assess the effectiveness of the capital and technology improvement program. The ultimate goal is to develop an outcome driven investment measure. The CAO will develop procedures based on this Policy that will be amended as needed to facilitate the annual funding request process.

   2.3 Capital and technology improvement as used in this policy is inclusive of all aspects of the City's municipal facilities, physical plant and major information technology (IT) infrastructure and systems. These are further described in Section 8 - **Capital and Technology Element Descriptions** of this Policy.

3. Project Identification Process

3.1 The City shall identify projects for funding on an annual basis through a systemic and transparent process that is consistent with the City's annual budget development process and that reflects the prioritization criteria detailed in Section 4 - **Project Prioritization Criteria** of this Policy. The annual process is as follows:

A. Funding Requests for Ongoing Projects

- July: The CAO will release the annual funding request solicitation for ongoing projects and provide instructions and deadlines to Council offices and departments for the submission of these requests.

B. Funding Requests for New Projects

- September - October: The Mayor's Budget Letter and subsequent CAO budget instructions will provide departments with an opportunity to submit funding requests for new capital improvement and technology projects.*

C. Review and Determination Schedule for Ongoing and New Projects

- July - December: Funding requests for ongoing and/or new projects must be submitted with all required documents with necessary approvals from governing boards or commissions by the established deadlines to the CAO.*

- August - March: The CAO will assess requests for capital and technology improvement projects in accordance with the prioritization criteria.

- February - March: The CAO provides annual funding recommendations to the Mayor for consideration in the Proposed Budget.

- April: The Mayor submits the Proposed Budget to Council, including a proposed annual CTIEP.**

- April - May: The City Council will consider the proposed annual CTIEP as part of its consideration of the Proposed Budget.

- May - June: The Mayor and Council adopt the City Budget, which includes the Capital and Technology Improvement Expenditure Program.

- July - August: The Five-year CTIP is updated to reflect the adopted CTIEP and incorporate comments from Mayor and Council.

  ** The steps leading up to the release of the Proposed Budget are subject to change based on when the Mayor's Budget Policy Letter is released except for dates established by the Charter.*

  *** April 20th is the Charter deadline for the Mayor to submit the Proposed Budget to the Council.*

3.2 The Oversight Committees, described in Section 7 - **Project Management and Governance** of this Policy, will review project progress and consider and recommend interim changes and/or additions to the approved annual program, which will be subject to Mayor and Council approval.

3.3 The CAO will assess expenditures and report to the Oversight Committees on any necessary reprogramming actions to address funding needs for critical, emergent projects and for delayed or accelerated projects previously authorized.

4. Project Prioritization Criteria

4.1 **Primary Criteria:** All project funding requests will be reviewed and recommended for funding in accordance with the following primary criteria:

A. Risk to Health and Safety

1. Project avoids or minimizes the risk to health, safety, climate concerns and seismic risk associated with the infrastructure based on condition assessment of the asset, or the lack of an asset, that may include the age, size, material, capacity, and history of failure of the infrastructure.
2. Project is urgent and necessary to reduce potential hazards to the public, property and environment.
3. Project has the potential to reduce health and safety hazards.

B. Compliance with Legal, Regulatory, or other policy Mandated Requirements

1. Project is required by regulatory requirements (project specific or programmatic - e.g. General Permit Compliance or State and Federal regulations).
2. Project is required to comply with court orders and settlements.

3. Project complies with General Plan, Community Plan, Regional Transportation Plan, Sustainability Plan, Resiliency Plan, and/or other approved City-wide master plans.

C. Resilience and Sustainability

1. Project improves the health of the community and natural environment through sustainable designs with improved water resources and regional air quality and reduced greenhouse gas emission that contributes to climate change, open space and land for preservation, habitat protection and biological diversity, and enhanced urban runoff management.
2. Project facilitates multiple transportation options (including walk-ability, bicycles, and public transportation) and reduces the need for auto-dependency.
3. Project promotes infill development, where appropriate.
4. Project incorporates design that meets or exceeds recognized Federal and State standards in the field of energy efficiency, such as State of California Title 24 Energy Efficiency Standards, or LEED building standards.
5. Project results in greener neighborhoods and reduces or avoids the potential public exposure to pollutants, contamination and other hazards to public health and environment.

D. Impact to City Operations, Asset Condition, Annual Recurring Costs and Asset Longevity

1. Project is necessary to meet basic level of service needs.
2. Project avoids potential infrastructure failure.
3. Project minimizes maintenance needs by improving infrastructure and/or reducing future costs.
4. Project delay would create significant future costs, or negative community impacts.

E. Equitable Community Investment and Economic Sustainability

1. Project contributes toward economic development and revitalization efforts.

2. Project will benefit underserved communities including those with low- income households, low community engagement and low mobility or access to transportation systems.

3. Project benefits communities that have the highest population served per acre.

4.2 **Secondary Criteria:** Projects meeting the primary criteria will be assessed against the secondary criteria to reach a final recommendation.

A. Project Readiness

1. Project is ready to enter the phase corresponding to the funding requested (e.g., a design-build project with a completed environmental document will rank higher than a design-build project without a complete environmental document).

2. Project shall be ranked based upon the delivery method. Projects that can be delivered most expeditiously shall be preferred.

B. Funding Availability

1. Project that has higher leveraging of City funds against external funds (grant funds or cost sharing from outside entities) will receive greater priority.

2. Project rank is increased based on assessment of the amount of funding needed to complete the current project phase and the entire project.

C. Multiple Category Benefit and Bundling Opportunities

1. Project reduces construction costs and community disruption by potentially bundling with adjacent projects.

2. Project provides for partnering or bundling opportunities with other local, state, or federal agencies (e.g., leverages shared resources).

3. Completion of project sooner may provide significant financial benefits.

5. <u>Cost Estimates</u>

5.1 Cost estimating is an iterative process that should be done at significant milestones during the development of capital and technology improvement projects. Cost estimating should develop a greater degree of detail and accuracy at each milestone and provide a major budgetary control mechanism on every project.

5.2 For purposes of initial scoping, preliminary cost estimates may be based on industry standards or existing practices.

5.3 Once a project has been funded through the annual CTIEP, cost estimates should be prepared after each applicable phase, such as space planning, preliminary design, conceptual design, final design (just prior to bid initiation), and on change orders during construction or implementation.

5.4 Cost estimates should be as complete as possible based on the information available at milestones and should address such areas as CEQA or NEPA compliance, land acquisition, grant funding requirements, design, construction, furniture, fixtures and equipment (FF&E), software and hardware, contingency funding, costs associated with staffing, maintenance and other additional incremental costs that may be incurred once the project is complete.

6. Funding requirements

6.1 Total requested funding should identify the total amount needed to complete the project, potential sources of funding including any applicable restrictions, options for phased implementation, and a timeline with milestones and the corresponding funding needed to accomplish each milestone.

6.2 The funding requirement should include the estimated amount needed to fund ongoing maintenance, programming, and operating needs of the project.

7. Project Management and Governance

7.1 The project manager is accountable to the user department, Mayor, City Council, and the Oversight Committees, as applicable, for cost control, progress, and timely completion of the project.

7.2 Oversight Committees established by the voters or by the Mayor and Council to oversee voter-approved construction programs will continue to provide administrative oversight of their respective projects as applicable.

7.3 The Municipal Facilities Committee (MFC), chaired by the CAO, with the Chief Legislative Analyst and the Mayor's Office, or designee, as members, will be responsible for the municipal facilities component of the Capital and Technology Improvement Plan. The Municipal Facilities Committee is responsible for the following:

- Assess project progress and report to the Mayor and Council on any adjustments to project schedule or funding requirements;

- Review maintenance and replacement schedules to ensure that municipal facility assets produce the longest, most cost effective life cycle; and,

- Work with the Physical Plant oversight committees and the Information Technology Oversight Committee, as applicable, to periodically review and revise, subject to Mayor and Council approval, the Capital and Technology Improvement Policy to ensure that the City's needs are addressed in a comprehensive manner.

7.4 Information Technology Oversight Committee (ITOC), chaired by the CAO, with the Mayor or designee, and the Chief Legislative Analyst as members, is responsible for the oversight, as needed, of the information technology component of the Capital and Technology Improvement Plan. The ITOC is responsible for the following on an as-needed basis:

- Assess project progress and report to the Mayor and Council on adjustments to project schedule or funding requirements;

- Review maintenance and replacement schedules to ensure that information technology assets produce the longest and most cost-effective lifespan while maintaining relevance and providing benefit to the City in the frequently changing world of technology; and,

- Work with the MFC and the Physical Plant oversight committees, as applicable, to periodically review and revise, subject to Mayor and Council approval, the Capital and Technology Improvement Policy to ensure that the City's needs are addressed in a comprehensive manner.

7.5 The Physical Plant management oversight structure is comprised of several oversight committees and working groups that are created to provide oversight to their respective infrastructure asset classes. This approach allows for a focused discussion and evaluation of projects by asset class which have different characteristics and funding streams. These committees or working groups include the following:

- <u>Street and Transportation Projects Oversight Committee (STPOC)</u> – Established by the Council and Mayor during the Adoption of the 2011-12 Budget. Chaired by the City Administrative Officer, with the Mayor or designee and the Chief Legislative Analyst as members, is responsible for the street and transportation component of the Capital and Technology Improvement Plan.

- <u>Proposition O Administrative Oversight Committee (AOC) and Citizens Advisory Oversight Committee (COAC)</u> – Established by voter approval of Proposition O. The AOC is chaired by the City Administrative Officer, with the Mayor or designee, Chief Legislative Analyst, the Board of Public

Works, and the Department of Water and Power as members. The COAC consists of nine experts in clean water appointed by the Council President and the Mayor. Both the AOC and COAC are responsible for water quality benefit projects that are funded by Proposition O (Prop O). This governance structure may potentially evolve into a more general oversight role for over $7 billion worth of stormwater quality projects funded from other sources of funds. These projects will be similar in scope to projects implemented under Prop O.

- Measure W – Approved in 2018, is a County-wide parcel tax to support stormwater-related projects and activities. The City is in the process of establishing a governance structure that will be incorporated by reference as part of this policy (C.F. 18-0384-S1).

- Working Groups – The lead department(s) and/or the Mayor's Office may establish program/project specific working groups to monitor progress. These working groups advise the Mayor and Council on critical programmatic and/or budgetary issues.

7.6 The Physical Plant management oversight committees and working groups are responsible for making recommendations to the Mayor and Council. These committees are responsible for the following:

- Review progress of projects, identify obstacles to project completion and recommend adjustments to facilitate timely project completion;

- Provide reports and recommendations to the Mayor and Council on the priorities of physical plant projects for funding, acquisition, and construction;

- Review maintenance and replacement schedules to ensure that physical plant assets achieve the maximum useful life;

- Establish funding protocols for its respective projects; and

- Work with the MFC and ITOC, as applicable, to periodically review and revise, subject to Mayor and Council approval, the Capital and Technology Improvement Policy to ensure that the City's needs are addressed in a comprehensive manner.

8. Capital and Technology Element Descriptions

8.1 The Capital and Technology Improvement Plan will include all elements of municipal facilities, physical plant, and major information technology infrastructure and systems.

8.2 The Municipal Facilities elements include:

- Administrative Quarters: Includes office buildings such as City Hall, City Hall East, and City Hall South.

- Recreational and Cultural Facilities: Includes zoos, parks, pools, recreation centers, senior citizens centers, boxing gyms, junior arts centers, and youth art centers.

- Library Infrastructure: Includes regional and local libraries when not under the exclusive control of that department.

- Public Safety Infrastructure: Includes all fire and police facilities, and both regional and local animal shelters.

- Off-site Infrastructure: Includes yards and shops that support the various departments.

8.3 The Physical Plant elements include:

- Stormwater Projects: Storm drain projects, water quality improvement projects, projects funded by the Proposition O Clean Water Bond, pipelines, sewer treatment facilities, and sewer pipes.
- Street Projects: Includes highways, streets, bikeways, sidewalks, busways, bridges, tunnels, bus pads, median islands, signs, street furniture, slope failures, stairwells, bike paths (not adjacent to streets), trees, signals (and other traffic controls), and green street infrastructure.

- Street Lighting Projects: Street lighting safety improvement projects, tunnel and bridge lighting projects, stairway and walkway lighting, and energy- saving conversion projects.

- Transportation Projects: Includes rail, bicycle and pedestrian projects.

8.4 Information Technology infrastructure and systems elements include:

- Citywide Infrastructure: Includes core technical infrastructure, such as radio towers, network equipment, servers, storage systems, backup and recovery systems, licensing for citywide services, security/disaster recovery hardware and software, ecommerce, database platform, fiber optic infrastructure, citywide broadband, and specialty equipment.

- Major Projects and System Replacements: Includes upgrades or replacement of major technology systems, such as the Asset Management System (AiM). The scope of the systems either benefit the entire City or support large departmental operations, such as public safety technology, that require significant investments in resources and time (i.e.

public safety radio communication system and the Human Resources and Payroll System (HRP)).

8.5 Information Technology capital projects shall not include:

- Computer Equipment: Funding to replace, upgrade, or repair personal computers, laptops, and associated network devices as well as associated software will be considered on a case-by-case basis during the City's annual budget process.

- Minor Projects and Infrastructure Upgrades, such as Business Applications, Mobile Applications, Cloud Computing, Social Media, and Online Services: Projects with an estimated cost less than $1,000,000, unless the project is determined to have a significant citywide impact.

SECTION 3
PENSION AND RETIREMENT FUNDING POLICY
(As amended on January 21, 2020; Council File 19-0600-S171)

OBJECTIVE

The City has made a commitment to its past and current employees to provide ongoing pension payments and healthcare subsidies to them during their retirement. To fulfill this commitment, the City must make annual contributions to the Los Angeles City Employees' Retirement System (LACERS) and the Los Angeles Fire and Police Pension System (LAFPP) as part of the budget. It is important that the City continue to meet this commitment to ensure that the costs associated with current services are borne at the current time. This policy restates that commitment, establishes a discretionary use for any true-up credit adjustment, and dictates the City's use of any savings that are generated in the case that either pension system is overfunded.

POLICY

I. Funding Policies

A. City to Fully Fund Retirement Systems

The City is committed to its employee workforce and will execute its Charter requirements by fully funding both its pension and retirement systems based on the annual actuarial studies. These actuarial studies may change from year to year based on recent experience data, actuarial assumption changes, actuarial funding method changes, market conditions, future Governmental Accounting Standards Board reporting requirements, or other factors that may influence the actuarial process. It should be noted and understood by the City that market conditions affect both LACERS and LAFPP over time. These market conditions affect the funding ratio calculated at the end of each fiscal year through the actuarial process for both systems. Over time, depending on market conditions and the actuarial computed contribution rates, the City's annual contribution rate will increase and decrease.

B. Deferring Contributions

At times, opportunities may arise in which the City can request a phase-in of assumption changes approved by the respective retirement boards that increase the City's annual contributions. A phase-in of assumption changes essentially spreads the payments over several years and increases the overall cost to the City. Opportunities may also arise in which the City can seek debt mechanisms to cover current payments. Use of debt mechanisms to cover pension payments are both risky and can lead to higher overall costs for the City.

In most cases, these approaches to funding move current obligations to future periods and increase the overall costs to the City. Due to these risks, the City should consult with independent experts before using these mechanisms.

This policy does not restrict the systems' ability to amortize gains or losses over a period of time as recommended by an actuary and approved by either system's board.

C. Use of a True-Up Credit Adjustment

The City's annual contributions to the retirement systems is calculated using a projected employee payroll amount. During the course of the fiscal year, the systems may choose to recalculate the City's required contribution using actual payroll data. As a result of this recalculation, the City may be required to true up its contribution by either increasing or reducing the amount in the subsequent year. If the City is informed that it may take a true-up credit adjustment, it may use half of that credit to reduce an unfunded portion of the retirement system, as designated by the Mayor and City Council through the budget process.

II. Use of Savings if the Systems are Overfunded

During those fiscal years when either LACERS or LAFPP are over-funded (greater than 100% funded) and therefore the total annual required contribution, as adopted by the respective Boards, is less than the amount required to fund the normal cost of retirement and health benefits for employees, the City will limit the extent to which it will recognize these savings (negative unfunded actuarial accrued liability) in the budget. Specifically, the amount budgeted for retirement and health contributions will be no less than the amount derived by reducing the normal cost contribution rate to 90 percent. An adopted contribution rate that would allow the City to contribute an amount less than 90 percent of the normal cost shall trigger this provision that prohibits the City from using these savings to fund the City's ongoing service and program costs. Any savings or reduction in funding calculated due to the incremental contribution rate below the 90 percent threshold will only be budgeted to pay down unfunded pension or healthcare costs for retirees or, in the event the all such costs are fully funded, as an appropriation to the Budget Stabilization Fund.

This policy would only be triggered when either system has a total, negative unfunded actuarial accrued liability (UAAL) that would cause the actual contribution rate to be below the 90 percent threshold of the normal cost amount. When the total UAAL is positive, the City will continue to fully fund both the normal cost and UAAL as required by the City Charter.

Examples are provided below to illustrate this funding policy. The example uses hypothetical rates chosen to illustrate how this policy is applied.

Provision Calculation	Rate as a Percent of Pay Example 1	 Example 2
Normal Cost:		
Pension/Retirement Benefits	18	18
Health Benefits	2	2
Total Normal Cost	20	20
(A) Funding Threshold (Normal Cost times 90 percent)	18	18
(B) Normal Cost and Unfunded Actuarial Accrued Liability	25	15
(A - B) Credit (to be calculated against estimated salaries and used for one-time expenditures) or Cost of Unfunded Actuarial Accrued Liability	(7)	3

In example 1, the credit amount is negative meaning that the City's contribution is more than 90 percent of the normal cost of retirement and health benefits for employees. Therefore, funding would not be set aside for one-time uses pursuant to this policy. In example 2, on the other hand, the credit amount is positive and the policy goes into effect. The amount that must be set aside for one-time uses would be calculated by multiplying the credit of 3 percent by the covered payroll for the ensuing year's budget for the employees within the system.

The City Administrative Officer will be required to complete this analysis in preparation of the Proposed Budget. Any subsequent changes approved by the Mayor and City Council that affect the annual contribution rate for either system will then require the City Administrative Officer to re-calculate the funding threshold for the final Adopted Budget amount.

SECTION 4
GENERAL FUND RESERVES POLICY
(As amended on January 21, 2020; Council File 19-0600-S171)

OBJECTIVES

The General Fund Reserves Policy is intended to provide guidelines on the purpose, the sizing, the uses, and the restoration requirements of the Reserve Fund (both the Emergency and Reserve accounts), the Budget Stabilization Fund, and the Unappropriated Balance line item set aside for mid-year adjustments. Taken together, these three accounts compose the City's General Fund reserves. The Policy is further intended to ensure that sufficient reserves are maintained for unanticipated expenditures or revenue shortfalls, to preserve flexibility throughout the fiscal year to make adjustments in funding for programs approved in connection with the annual budget, and to prepare the City for potential revenue challenges in future years. The objective is for the City to be in a strong fiscal position to weather future economic downturns and financial challenges. Maintaining strong reserves is important since the City is bound by the requirements of Proposition 218, which prevents the City from raising taxes without voter approval. Furthermore, with strong reserves the City is better able to:

- Mitigate state or federal budget actions that may reduce City revenue.
- Mitigate economic downturns that the City may face in the future.
- Absorb large liability settlements without the need for issuing judgment obligation bonds.
- Purchase capital assets without the need to finance the purchase of assets.
- Front-fund or completely fund, if necessary, disaster recovery costs or costs associated with the City being self-insured.
- Absorb unanticipated budget shortfalls during the fiscal year that cannot be addressed by other means.
- Access the capital market at a lower cost by demonstrating the City's fiscal strength and ability to address unanticipated financial challenges.

The Government Finance Officers Association (GFOA) recommends that governments establish a formal policy on the level that should be maintained in the unrestricted fund balance of the General Fund. The GFOA does not specify that level, but recommends that it be determined taking into consideration vulnerability to natural disasters and the level of dependence on volatile revenue sources or on state and federal funding that is subject to being cut. While the GFOA sets a standard minimum balance as equivalent to two months of operating revenues, it states that this rule may not apply to America's largest governments.[5] Since the City of Los Angeles falls into this category, it is appropriate for the City to establish its own minimum level of reserves rather than using the GFOA's general recommendation for maintaining reserves at least equal to two month of operations.

The City's reserves target should be based on its unique risk profile. The most significant catastrophic risk to Los Angeles is from a natural or human-caused disaster. Los Angeles' location in an active earthquake zone is the most obvious source of this risk and does provide justification for the City to maintain healthy reserves. Financially, however, the City benefits from stable financial structures that mitigate the need for unusually high reserves. For example, Los Angeles is a large government with a diverse, and therefore relatively stable, revenue base. Further, federal and state funding does enable the City to provide important services, most notably in the areas of human services, community development, and infrastructure, but in the absence of those funds the City would maintain funding for many other core services.

The rating agencies that evaluate the City's capacity to repay its debt have consistently stated that establishing and meeting minimum reserve levels is an important component of their review of the City's fiscal health. Thus, in addition to serving as a contingency for unforeseen challenges that arise during the fiscal year, the level of the City's reserves is also reviewed by investors that are considering purchasing the City's debt.

POLICIES

I. Total Reserves

A. Composition

The City's total reserves shall include funds that are appropriated without a designated use in the annual budget. Reserves may or may not be intended for use for unanticipated operational shortfalls or challenges, but they must be accessible for these purposes through an action of the City Council and Mayor. The total reserves include the Reserve Fund, the Budget Stabilization Fund, and the Unappropriated Balance line item set aside for mid-year adjustments.

B. Required Level

Other than the required funding levels for the Reserve Fund, which is not less than five percent of all General Fund receipts anticipated for that fiscal year in the adopted budget, there is no set required level of funding for the City's total reserves. It shall be the goal of the City that the cumulative value of the

[5] Government Finance Officers Association. *Best Practice: Fund Balance Guidelines for the General Fund*.

Reserve Fund, the Budget Stabilization Fund, and the Unappropriated Balance line item for mid-year adjustments be ten percent of all General Fund receipts anticipated for that fiscal year in the adopted budget.

C. Use of Excess Reserves

In the event the combined balance in the Reserve Fund and the Budget Stabilization Fund exceeds 15 percent of the adopted General Fund budget, the City Council and Mayor may consider appropriating the excess funds to other funding priorities that are considered to be one-time expenditures such as:

- Capital spending to meet the Capital and Technology Improvement Policy;
- Prepayment of General Fund debt;
- The unfunded portion of the City's civilian and sworn retirement systems; or
- Other obligations.[6]

This provision in no way relieves the City of its obligation to comply with the five percent Reserve Fund threshold requirement.

D. General Fund Reversions

Prior-year funds and surpluses will revert to their original funding sources.[7] Those reverting to the General Fund will first revert to the Reserve Fund to ensure the funding level of the Reserve Fund is at least five percent of the General Fund and to ensure sufficient funds are available in the Reserve Fund for year-end closing transfers. The balance of funds may be deposited into the Budget Stabilization Fund.

Reappropriations of current year funding to the subsequent year that are not approved through the budget development or year-end reporting process are discouraged. Requests for reappropriations of funds from the prior fiscal year shall be viewed as requests for new appropriations and subject to the provisions of the City's Financial Policies related to interim requests for funding and the uses of the City's reserves.

II. Reserve Fund

A. Purpose and Composition

The Reserve Fund shall include funding for unanticipated expenditures and revenue shortfalls in the City's General Fund. It shall include two accounts

[6] Los Angeles Administrative Code Section 5.120.4(c).
[7] Los Angeles City Charter Section 344.

within the fund, the Contingency Reserve Account and the Emergency Reserve Account.[8]

B. Required Level

The Reserve Fund shall be not less than five percent of all General Fund receipts anticipated for that fiscal year in the adopted budget.[9] The amount placed in each of the Reserve Fund accounts shall be determined as follows:

1. Contingency Reserve Account

The Contingency Reserve Account shall include all monies in the Reserve Fund over and above the amount required to be allocated to the Emergency Reserve. The amount, however, is not expected to be less than 2.25 percent of all of the receipts anticipated for that fiscal year in the adopted budget. The amount may also be higher depending on recent experience with the need for supplemental funding during the year for programs approved in conjunction with the budget.

2. Emergency Reserve Account

The City Council shall annually allocate an amount to the Emergency Reserve Account that shall bring the balance in that Account to not less than 2.75 percent of all General Fund receipts anticipated for that fiscal year in the adopted budget.[10]

C. Uses

1. Contingency Reserve Account

In the event that during the year there are unanticipated expenses or revenue shortfalls impacting programs already approved in conjunction with the current year budget, and appropriations within the Unappropriated Balance or surpluses within other City programs are not available, the Contingency Reserve Account will be the source of any additional funding for those programs. Funds must be appropriated by a vote of at least a majority of the City Council, with Mayoral concurrence, or by a two-thirds vote of the City Council in the event of a Mayoral veto.[11] The Contingency Reserve Account shall not be used to fund new programs or positions added outside of the current year budget. Such funding must come from other non-Reserve Fund sources.

[8] Los Angeles City Charter Section 302(b).
[9] Los Angeles Administrative Code Section 5.120
[10] Los Angeles City Charter Section 302(b)(2).
[11] Los Angeles Administrative Code Section 5.120(b).

2. Emergency Reserve Account

Transfers from the Emergency Reserve Account of the Reserve Fund shall require approval by a two-thirds vote of the City Council with the concurrence of the Mayor, or, in the event of a Mayoral veto, by a three-fourths vote of the City Council. Concurrent with the transfer, the City Council shall make a finding of urgent economic necessity. The basis on which a finding of urgent economic necessity may be made includes, but shall not be limited to, a significant economic downturn after the budget is adopted, a natural disaster, such as an earthquake, civil unrest, or other significant unanticipated events requiring the expenditure of General Fund resources.[12]

D. Restoration

In fiscal years where it becomes necessary for the City to use monies in the Reserve Fund such that the Reserve Fund balance drops below the five percent level, the City will initiate action in the subsequent year to replenish the Reserve Fund to the level of five percent of General Fund receipts. If use of Reserve Fund monies is less than one percent of General Fund receipts, the City shall attempt to replenish the five percent balance in the subsequent fiscal year. If use of Reserve Fund monies is more than one percent of General Fund revenue, the City shall attempt to replenish the five percent balance by one percent per year over a period of years as necessary to restore the Reserve Fund balance to the level of five percent of General Fund revenue.

Notwithstanding this provision, if the Emergency Reserve Account must be used, the City shall, in the subsequent fiscal year, restore the Emergency Reserve Account to 2.75 percent of all General Fund receipts anticipated for that fiscal year in the adopted budget. In the event of a catastrophic event which requires use of the Emergency Reserve Account spanning more than one fiscal year, the City Council may, by a two-thirds vote with the concurrence of the Mayor or, in the event of a Mayoral veto, by a three-quarters vote, temporarily suspend the restoration requirements provided, however, that concurrent with the action of the City Council to suspend the requirement, the City Council adopts findings detailing the necessity for continued access to the Emergency Reserve Account and setting forth a date on which the restoration requirements shall be reinstated.[13]

[12] Los Angeles City Charter Section 302(b)(3)(ii).
[13] Los Angeles City Charter Section 302(b)(4) and Section 302(b)(5).

III. Budget Stabilization Fund

A. Purpose

The Budget Stabilization Fund (BSF) is established to provide a method to prevent overspending during prosperous years and to provide resources to help maintain service levels during lean years.[14]

B. Required Level

1. No Minimum Balance

The BSF does not have a minimum balance that it must maintain. The deposit and withdrawal rules established herein will ultimately dictate the available balance in the BSF. When General Fund tax growth is projected to exceed average annual ongoing growth, a portion of that growth must be deposited into the BSF. If growth is projected to fall short of average annual ongoing growth, a portion of the BSF may be appropriated to the subsequent year's budget.

2. Establishment of the Average Annual Ongoing Growth Threshold

The Average Annual Ongoing Growth Threshold (Growth Threshold) shall be calculated by the Office of the City Administrative Officer and presented to the Mayor and City Council for approval following the release of the Controller's *Preliminary Financial Report* and prior to the release of the Mayor's Proposed Budget on an annual basis. If a Growth Threshold is not approved prior to the release of the Mayor's Proposed Budget, the prior year's Growth Threshold will be used.

The Growth Threshold shall be the percentage equal to the 20-year average of the actual annual growth of cumulative ongoing receipts from the following seven sources:[15]

1. Property Tax
2. Utility Users' Tax
3. Business Tax
4. Sales Tax
5. Transient Occupancy Tax
6. Documentary Transfer Tax
7. Parking Users' Tax

[14] Los Angeles Administrative Code Section 5.120.4
[15] Los Angeles Administrative Code Section 5.120.4(a).

References to the General Fund taxes in the remainder of this Section shall refer to these seven sources.

C. Withdrawal Criteria

Savings in the BSF will primarily be used to mitigate revenue shortfalls due to economic downturns and address the resulting short-term budgetary shortfall. The BSF should not be used to pay for increased or enhanced services. While the BSF does not provide long-term relief from the implementation of structural reductions or solutions, it will provide a soft landing and transition for difficult and painful reductions to discretionary programs.

During the development of the budget for the upcoming fiscal year, a transfer from the BSF to the General Fund may be incorporated as part of the adopted budget for that fiscal year when the anticipated ongoing combined growth (Anticipated Growth) of the General Fund taxes falls short of the Growth Threshold. The Anticipated Growth calculation will be based on the comparison between the ongoing General Fund tax receipts in the adopted budgets for the current fiscal year and the ensuing fiscal year.

For each one percent that the Anticipated Growth falls short of the Growth Threshold, the amount of the permitted transfer from the BSF shall be equal to five percent of the value of the anticipated shortfall. The maximum appropriation shall be equivalent to 25 percent of the value of the difference between the Anticipated Growth and the Growth Threshold, and may not exceed the available balance of the BSF.

The amount of the transfer from the BSF in any year may exceed the amount calculated pursuant to this methodology, subject to the availability of funds, if the City Council and Mayor have declared a fiscal emergency for the City or have suspended the BSF funding based on findings that it is in the best interest of the City to suspend the policy.

Any transfer authorized by this policy is permitted but not required.

D. Deposit Criteria

A budget appropriation to the BSF shall be included as part of the adopted budget for the following fiscal year when the Anticipated Growth exceeds the Growth Threshold.

For each five-tenths of one percent that the Anticipated Growth exceeds the Growth Threshold, the amount of the required appropriation to the BSF shall be equal to five percent of the value of the anticipated excess growth. The maximum appropriation shall be equivalent to 25 percent of the value of the growth above the Growth Threshold.

The required deposit to the BSF may be forgone in its entirety in the event that the City Council and Mayor declare a fiscal emergency or suspend the BSF funding policy based on findings that it is in the best interest of the City to suspend the policy.

Mid-year deposits to the BSF or deposits above the required amount may be authorized by the City Council, subject to the approval of the Mayor, at any time during the year from various General Fund sources. Consideration should be given to depositing unanticipated and unbudgeted receipts that are not otherwise required to balance the current year budget.

IV. Unappropriated Balance – Line Item for Reserve for Mid-Year Adjustments

A. Composition and Purpose

Each year, the City Council and Mayor shall appropriate funds to a line item in the Unappropriated Balance intended for use as a reserve for mid-year adjustments. The purpose of this line item shall be to address shortfalls that arise during the fiscal year that cannot be otherwise addressed through service adjustments or account transfers. This line item shall be used to address these shortfalls prior to the Reserve Fund.

B. Required Level

There shall be no required amount for the appropriation to the Unappropriated Balance line item for mid-year adjustments. The appropriation amount shall be determined by the Mayor and City Council through the annual budget development process. When determining the appropriation to this line item, consideration shall be given to the nature of the risks to the subsequent year's budget and their likelihood and potential magnitude.

C. Uses

Transfers may be made from the Unappropriated Balance line item for mid-year adjustments during the fiscal year subject to the approval of the Mayor and City Council. Such transfers should be consistent with the purposes of this line item as determined by this Policy and that year's adopted budget.

D. Restoration

Transfers may be made to the Unappropriated Balance line item for mid-year adjustments during the fiscal year subject to the approval of the Mayor and City Council. Appropriate sources for such transfers include, but are not limited to, transfers of budgetary savings generated during the fiscal year in other General Fund accounts.

SECTION 5
GENERAL FUND ENCUMBRANCE POLICY

(As amended on January 21, 2020; Council File 19-0600-S171)

OBJECTIVE

An encumbrance is a reservation of funds to cover purchase orders, contracts, or other goods and services that are chargeable to an appropriation. It records obligations before goods are received or services are rendered. Encumbrances are often recorded based on estimates of the cost of goods or services being purchased.

An employee or officer of the City may not obligate the City to make payment for goods, services, or any other purpose until the employee has determined that funds are actually available in the proper account for the specific purpose. The City's encumbrance accounting system controls spending based on the appropriations, allotments, expenditure budget, or a combination of them. By requiring the government entity to commit to an expenditure through an encumbrance prior to the disbursement of funds, an encumbrance system provides a warning as the authorized expenditure level is approached and thus protects the entity from over-spending an appropriation.

While establishing encumbrances is an important accounting tool, retaining encumbrances past the point at which the associated expenditure is necessary restricts funds that could otherwise be used for pressing needs. Therefore, the objective of this policy is to establish the limitations on reprogramming prior-year encumbrances, and to ensure that the unnecessary encumbrances are released in a timely manner.

POLICY

I. Use of Current-Year Encumbered Funds

Once funds have been encumbered, they cannot be expended for anything other than what was authorized under the original encumbering authority, which could include a purchase order, contract, authority for expenditure, or travel authority. City departments may disencumber and re-encumber funds within the same fiscal year.

II. Adjustments to Prior-Year Encumbrances

City departments may not increase a prior-year encumbrance, but they may disencumber one. Notwithstanding this Policy, prior-year encumbrances in special funds and for capital projects may be increased.

Only the Mayor and City Council may reprogram prior-year disencumbered funds. At the end of a fiscal year, all unencumbered funds will revert to their respective originating funding source or, if the originating source is the General fund, to the Reserve Fund.

III. Release of Prior-Year Encumbrances

If funds are not disencumbered they will continue to be regarded as obligated balances, thereby reducing the available unobligated account balances. Consequently, the timely disencumbrance of funds is necessary to reflect an accurate and updated status on the availability of funds.

As a rule, any encumbered funds that remain unspent for a period longer than one fiscal year shall be reverted. An exception to this policy applies to encumbrances for commodities procurements, which include supplies or equipment. These encumbered funds shall revert if they remain unspent for a period longer than three years.

The City Controller and the City Administrative Officer are authorized to implement this Policy and to ensure funds are disencumbered at the appropriate time.

IV. Consideration of Exceptions to the Policy

A. In extraordinary circumstances, departments may request a reappropriation of funds when it can be clearly demonstrated that it is in the best interest of the City to do so. There must be at least one of the following conditions present before a request for reappropriation will be recommended for approval:

   1. A legal obligation or liability. The goods or services must have been provided, but not yet paid.

   2. A contingent liability. Items that are likely to become liabilities as a result of conditions undetermined at a given date, such as guarantees, pending lawsuits, judgments under appeal, unsettled disputed claims, unfilled purchase orders, and uncompleted contracts.

   3. A legislative appropriation for a specific project which cannot be completed within the allowable time frame. Such appropriations, however, cannot be carried on indefinitely and the City Administrative Officer will reevaluate the continuation of the encumbrance if the project has not been completed.

B. This policy does not apply to prior-encumbrances for the Capital Improvement Expenditure Program (CIEP). These encumbrances are reviewed as part of the CIEP Year-end Reappropriations Report.

V. In the event that this policy creates the need for Direct Expenditures, departments must follow the applicable guidelines set forth in the Controller's manual.

SECTION 6
DEBT MANAGEMENT POLICY

(As amended on September 23, 2020; Council File 20-0161)

INTRODUCTION

The Debt Management Policy (Policy) has been developed to provide guidelines for the issuance of bonds and other forms of indebtedness to finance the acquisition of real property and capital equipment, capital improvements, and other matters for the City including short-term cash flow and large legal judgments. From time to time, it may be desirable for the City to update the Policy, particularly to reflect any changes to applicable federal and state laws regarding debt issuances, and revisions to City procedures. This Policy amends and supersedes the Policy approved by the Mayor and City Council in 2005, and also incorporates and amends the Municipal Improvement Corporation of Los Angeles (the "MICLA") Departmental Operating Policies approved in 2000, and the Variable Rate and Swap Policies approved in 2003. In addition, the Mello-Roos Policies and Procedures, adopted in 1994, are incorporated by reference and attached hereto as Exhibit A.

While the issuance of debt is frequently an appropriate method of financing capital projects and major capital equipment acquisition, these guidelines are designed to assist the City in determining the appropriate debt financing structures to use, and establishing certain debt management goals.

The Policy describes the circumstances and methods with which certain types of financing products can be used, the guidelines that will be imposed on them, and who in the City is responsible for implementing these policies. A Glossary of Key Terms is provided at the end of this Policy.

OBJECTIVE

The following represent key objectives of the Policy:

- To mitigate risk and support sound decision-making with regard to long-term financing commitments.

- To comply with federal and state laws and regulations, including disclosure and reporting requirements.

- To incorporate best practices into the City's issuance and management of its debt obligations.

- To ensure that the City's debt is consistent with the City's planning goals and objectives, and capital improvement program or budget, as applicable.

- To minimize the cost of debt.

- To maintain and improve the City's credit ratings on its debt.

- To establish selection criteria for retaining the best qualified financial consultants, attorneys, underwriters, and other financing participants through fair procurement processes.

GENERAL

Designated Managers of City Debt

1. The City Council has the final approval of all City debt and awards all contracts with respect to the sale of bonds and other debt instruments.

2. The City Administrative Officer's ("CAO") Debt Management Group structures debt issuances and oversees the ongoing management of all the General Fund and certain special fund debt programs. These include general obligation bonds, lease revenue bonds, lease purchase obligations, revenue obligations, judgment obligation bonds, special tax obligations, and Mello-Roos and special assessment obligations. Other programs may be added from time to time as new debt instruments are developed.

3. The CAO manages the following programs, each with its own ratings:

   a. General Obligation Bonds
   b. Judgment Obligation Bonds
   c. MICLA Lease Revenue Bonds and Commercial Paper
   d. Solid Waste Resources Revenue Bonds
   e. Tax and Revenue Anticipation Notes
   f. Wastewater System Revenue Bonds and Commercial Paper
   g. Land-Secured Assessment Financings
   h. Special Tax or Assessment District Financings

4. The CAO is responsible for managing the City's primary and continuing disclosure obligations for the above-referenced programs.

5. The CAO is responsible for ensuring compliance with this Policy and the development and implementation of procedures to ensure the compliance with applicable federal and state laws.

6. The CAO will provide the necessary debt documentation to the Controller to assist them in their responsibilities such as financial reporting.

7. The Departments of Airports, Harbor, Water and Power, the Housing and Community Investment ("HCID"), and the Industrial Development Authority (IDA through the Economic and Workforce Development Department (EWDD)), are responsible for issuing and administering their own debt due to the specialized aspects of the debt issued by these agencies and the integral ties between the debt that is issued and the programs these agencies administer.

8. The CAO reviews and monitors debt programs of the Departments of Airports, Harbor, Water and Power (Proprietary Departments). In accordance with Charter Section 609(a), the CAO makes recommendations to the Mayor and City Council on the proposed issuance of revenue bonds by the Proprietary Departments.

9. The CAO reviews and makes recommendations to the Mayor and Council for the issuance of housing bonds. HCID and IDA are Council-controlled entities and are expected to adhere to the guidelines set forth in the Policy, where applicable.

Method of Sale

10. There are three methods of issuing debt: 1) a competitive sale; 2) a negotiated sale; and 3) a private placement. There are advantages to each method of sale, depending on the facts and circumstances of the financing and the City's particular goals. The City should determine which method of sale to use based on the characteristics of the debt being issued, including rating quality, size of issuance, market conditions, and policy goals.

11. Competitive Sale: In a competitive sale, underwriters submit sealed bids and the underwriter or underwriting syndicate with the lowest True Interest Cost (TIC) is awarded the bonds. The City will use the competitive method of sale for its general obligation bonds and selected other securities.

12. Negotiated Sale: When a competitive sale is not practicable or less advantageous to the City, pursuant to the Charter Section 371(e)(2) and based on advice by an independent municipal advisor and the City Attorney that a negotiated bond sale is appropriate, the City may issue debt through a negotiated sale. In a negotiated sale, the City selects the underwriter or underwriting syndicate through a Request for Proposal ("RFP") process. The underwriter or underwriting syndicate will assist the City in structuring and marketing the bonds. The RFP process to select the underwriter or underwriting syndicate should consider the participation of Minority/Women/Other Business Enterprise (MBE/WBE/OBE), prior performance on competitive sales, and new ideas and approaches with the potential of lowering costs to the City. Since an underwriter can premarket the bonds to investors, negotiated sales are particularly appropriate for new or unusual credits or structures, or for Mello-Roos and assessment bonds sold without ratings; commonly referred to as story bonds.

13. Private Placements: A private placement is a type of negotiated sale in which the issuer places a financing directly with a private investor, generally a bank. Therefore, pursuant to the Charter Section 371(e)(2) and based on advice by an independent municipal advisor and the City Attorney that a private bond sale is appropriate, the City will select a bank through a RFP process and directly negotiates the transaction. These loans or bonds are used for smaller transactions where the costs of preparing an official statement and securing ratings are greater than the benefit, for unusual credits, or for a better pricing than the municipal bond market.

Pricing of Bonds

14. The City may issue bonds at their par value, at a premium (a price that is above par), or at a discount (a price that is below par) depending on the preferences of various types of investors. During periods when interest rates are low or have been trending lower, a larger proportion of bonds will be sold at a premium. Generally, when interest rates are high, a larger proportion of bonds will be sold at a discount.

Debt Affordability and Capacity

15. The determination of how much indebtedness the City should incur will be based on the long-term borrowing needs of the City, the availability of resources to repay the debt, and the impact of planned debt issuances on the long-term affordability of all outstanding debt as measured by the debt ratios developed by the City as guidelines in evaluating the affordability of future debt.

16. The Capital and Technology Improvement Program (CTIP) is one tool to identify the long-term borrowing needs of the City. The CTIP will incorporate the City's current five-year capital plan and include all presently known City financings to be repaid from the General Fund and relevant special funds. The CAO will revise the Five-Year CTIP Plan on an annual basis or as part of the annual budget process. See the CTIP Policy for details.

17. The City will carefully monitor the issuance of debt to maintain a balance between debt and resources available to service debt. The CAO shall use Direct Debt Service Payments as percent of General Revenues for voter approved and non-voter approved debt as the basis for its debt ratios.[16]

18. A Debt Affordability Chart illustrating projected debt ratios will be updated each time the CAO recommends the issuance of debt and included in the CAO report

[16] Direct Debt includes all debt that repaid from the General Fund or from any revenues deposited into special funds not supporting revenue bonds, such as general obligation bonds and Citywide parcel tax bonds. "General Revenues" consist primarily of the General Fund, as well as revenues from the special funds supporting direct debt.

in conjunction with the Debt Impact Statement and Fiscal Impact Statement required by Charter Section 325.

19. The Debt Affordability Ceiling for debt service on non-voter approved debt shall be no more than 6 percent of General Revenues. The 6 percent ceiling may be exceeded only in the following situation: (1) if there is a guaranteed new revenue stream for the debt payments and the additional debt will not cause the ratio to exceed 7.5 percent or, (2) if there is not a guaranteed revenue stream but the 6 percent ceiling will only be exceeded for one year.

20. The Debt Affordability Ceiling for debt service on voter-approved and non-voter approved debt combined shall be no more than 15 percent.

21. Debt capacity for revenue bonds secured by enterprise revenues is not measured in terms of the City's tax base or general revenues, but relative to factors specific to the system and its enterprise fund. One of the key measures of debt capacity for bonds secured by enterprise revenues is the system's Coverage Ratio, calculated by dividing the amount of net revenues (that is revenues after the payment of operations and maintenance, but excluding depreciation) by annual debt service. Coverage represents the amount of additional net revenues after payment of debt service, which are typically applied to pay-as-you-go capital or to build reserves. While the bond documents will set minimum coverage ratios the City must maintain in setting rates or issuing additional bonds, rating agencies and investors expect that actual coverage ratios will be higher. The City's CAO-managed revenue bonds, currently consisting of the Wastewater System Revenue Program and the Solid Waste Resources Revenue Program, are both highly rated in the AA-category. The CAO will analyze the appropriate level of Debt Service Coverage for each program and report actual and target coverage ratios in its staff reports recommending bond issuance and changes in rates and charges.

22. The rapid repayment of outstanding debt allows for additional future debt capacity for the City as well as long-term savings by reducing interest costs. The CAO will structure its general debt issuances (general obligation bonds and lease revenue obligations) to reach a target of 50 percent of all outstanding direct debt being repaid within 10 years.

23. Through pay-as-you-go financing, capital projects are funded from current revenues in the operating budget rather than through debt. Except under certain circumstances, the City will fund routine maintenance projects in each year's capital program with pay-as-you-go financing. Extenuating circumstances that may be debt financed include unusually large and non-recurring budgeted expenditures, or when depleted reserves and weak revenues would require delaying or eliminating necessary capital projects.

Budgeting

24. All staff costs directly related to bond-funded projects will be analyzed to determine if such staff costs can be reimbursed from bond proceeds under federal and state law. Each bond program has its own rules to determine eligibility for reimbursements from bond proceeds. City operations and routine maintenance costs will not be funded with any type of debt.

25. Any existing and new bond funds that remain unspent for a period longer than three years from the date the funds were originally deposited will be subject to reversion to pay debt service or to defease bonds. The City Controller and the CAO are authorized to implement this Policy and to ensure funds are closed at the appropriate time. Any exceptions shall require Mayor and City Council approval.

26. Any new bond funds remaining unencumbered after 18 months from the date the funds were originally deposited shall be subject to reversion and such funds may be reallocated for other capital projects with similar useful lives or to pay debt service. The City Controller and the CAO are authorized to implement this Policy and to ensure funds are either re-appropriated or transferred to the Trustee with the necessary administrative approvals. Any exceptions shall require Mayor and City Council approval.

Refinancing Outstanding Debt

27. The CAO shall periodically evaluate potential savings to the City from refinancing outstanding debt (Refundings). Savings will be analyzed on a present value basis with a goal of achieving a Present Value Savings of 3 percent of the refunded par amount for any one refunding transaction.

28. The CAO's present value analysis must identify the economic effect of any proposed refunding. The CAO shall recommend to the Mayor and City Council individual refunding candidates above or below the City's Present Value Savings Goal of 3 percent to optimize the City's financial objectives.

29. Refundings may be executed for reasons other than economic purposes, such as to restructure debt, to change the type of debt instrument, or to retire a bond issue and indenture for more desirable covenants. The CAO may recommend a refunding that has economic benefit but does not meet the Present Value Savings Goal of 3 percent. The CAO must inform the Mayor and City Council that this refunding does not meet the goal and explain the benefits as well as the costs.

Rating Agency Strategy

30. Communication with the rating agencies is the responsibility of the CAO. The CAO will continue its practice of meeting regularly with the rating agencies to keep them informed of the City's borrowing plans and financial condition. Meetings will generally occur at least once annually with each rating agency and, at a minimum, conference calls will be offered in connection with each issuance of bonds, at the discretion of the CAO.

31. The CAO, as its discretion, will decide which rating agency and the number of ratings to use for each bond financing.

32. The CAO will periodically report to the Mayor and City Council, detailing the City's credit strengths and weaknesses as perceived by the rating agencies. The CAO will include recommended actions to address any weaknesses identified by the rating agencies. This report may occur as part of the annual budget development process or in connection with any debt-related transaction. The report recommendations will take into consideration potential credit impacts of budget balancing options.

Investor Relations

33. Investor relations is a strategic management responsibility that integrates finance, communication, marketing, and securities law compliance to enable the most effective two-way communication between the City and its investors. The CAO's Debt Management Group will be responsible for managing the City's relationship with its investors and will respond to any investor's inquiry in a timely and informative manner.

34. The CAO will maintain and update the City's Debt Management and Investor Relations website, where it will provide current debt, financial, and disclosure information for ready access by investors.

Annual Debt Report

35. The CAO will annually prepare a report to the Mayor and City Council, which reviews the outstanding debt of the City. This may occur in conjunction with the annual budget development process.

TYPES OF DEBT

General Obligation Bonds

1. Voter-approved General Obligation Bonds (“GO bonds”) provide the lowest cost of borrowing to finance the acquisition or improvement of real property, and provide a new and dedicated revenue source in the form of additional ad valorem property taxes to pay debt service. Pursuant to California law, the voter approval threshold for City GO bonds is two-thirds. In recognition of the difficulty in achieving the required two-thirds voter-approval, GO bonds will be generally limited to facilities that provide wide public benefit and that have generated broad public support.

2. The final maturity of GO bonds will be limited to the shorter of the average useful life of the asset financed or 20 years.

3. In GO bond issues, the principal will generally be amortized in equal annual amounts or faster to meet the rapidity of debt repayment goals and should be callable no later than 10 years. Call options allow the City the right to prepay or retire debt prior to its maturity and thus provide opportunities to achieve interest savings through Refundings or cash pay downs.

4. GO bond issues will generally be sized to the amount reasonably expected to be spent in no more than three years.

5. GO bonds issued for new money purposes will be sold at a minimum price equal to the par amount of the bonds offered for sale.

Lease-Purchase Obligations

6. The City finances both capital improvements and equipment through the issuance of lease revenue bonds, lease revenue commercial paper, and through leases directly placed with banks and other private placement lenders. Generally, the City’s lease revenue bonds and other obligations are issued through the Municipal Improvement Corporation of Los Angeles (MICLA). A fuller discussion of the City’s lease financing program, including its use of commercial paper as a form of interim financing, is discussed in the MICLA section below.

7. In lease-purchase obligations, the final maturity of capital equipment obligations will be limited to the average useful life of the equipment to be financed, usually 10 years.

8. In lease-purchase obligations, the final maturity of real property obligations will be determined by the size of the financing: 10 to 15 years for small issues; 20 to 25 years for large issues; and 30 years for exceptional projects or those with a direct revenue component such as a special tax.

9. In lease-purchase obligations, the principal will generally be amortized to result in level annual lease payments; however, more rapid principal amortization may occur where permissible to meet debt repayment goals. The obligations should be callable no later than 10 years to provide opportunities for interest savings through Refundings or cash pay downs.

Revenue Obligations

10. Revenue bonds secured solely from fees are not included when rating agencies calculate the City's debt ratios in their criteria.

11. Revenue obligations include any bonds secured by fees or revenues derived from the enterprise and deposited into special funds (Revenue Bonds), such as the City's Sewer Construction and Maintenance Fund, the Solid Waste Resources Revenue Fund, and the Special Parking Revenue Fund. If a new revenue source is put into its own fund, then a new revenue bond program could be developed.

12. From time to time, the City may enter into other revenue obligations including direct loans with state and federal agencies, such as the California State Water Resources Control Board and the Environmental Protection Agency, that offer local agencies low cost loans to fund certain capital projects.

13. To preserve General Fund debt capacity and budget flexibility, Revenue Bonds will be preferred over General Fund-supported debt when a distinct and identifiable revenue stream can be identified to support the issuance of bonds.

14. The final maturity of Revenue Bonds or other debt obligations secured by enterprise or other special revenues will be determined by the expected useful life of the financed project and the revenues available to repay the debt.

15. Generally, principal amortization will be structured to provide level debt service for the bond issue or for overall level debt service for that specific program. The obligations should be callable no later than 10 years to provide opportunities for interest savings through Refundings or cash pay downs.

Judgment Obligation Bonds

16. Judgment Obligation Bonds (JOBs) are issued to finance a court action against the City and a court-approved settlement. To issue these bonds, the City must participate in a court-approved validation process.

17. The final maturity of any JOB will be limited to 10 years to demonstrate the City's willingness to repay such obligations quickly.

18. The principal amortization will be determined as appropriate for each particular JOB transaction.

Special Tax Obligations

19. Special Tax Obligations are secured by revenues derived from a voter-approved special tax. These obligations are repaid with either excise taxes or parcel taxes, but not by ad valorem taxes.

20. Generally, the final maturity of City-wide special tax obligations will be limited to 20 years, unless there are unusual circumstances, as determined by the CAO. The obligations should be callable no later than 10 years from date of issuance to provide opportunities for interest savings through Refundings.

Mello-Roos and Special Assessment Obligations

21. Mello-Roos and Special Assessment Obligations are secured by additional charges levied on a discrete group of property owners. These obligations constitute overlapping indebtedness of the City and have an impact on the overall level of debt affordability.

22. The City has developed separate guidelines for the issuance of Mello-Roos and Special Assessment Obligations. The City of Los Angeles Policies and Procedures for Mello-Roos and Assessment Districts, adopted by the City Council on November 1, 1994, and all subsequent amendments, are hereby incorporated into this Policy. A copy of the Mello-Roos Policy is incorporated by reference and attached as Exhibit A.

Pension Obligation Bonds

23. Pension Obligation Bonds (POBs) are taxable bonds issued as part of an overall strategy to fund the unfunded portion of pension liabilities. The use of POBs rests on the assumption that the bond proceeds, when invested in higher-yielding asset classes that are allowed for pension systems (such as corporate stock), will be able to achieve a rate of return that is greater than the interest rate owed over the term of the bonds.

24. POBs involve considerable investment timing risk, making the goal of issuing POBs somewhat speculative. Failing to achieve the targeted rate of return burdens the issuer with both the debt service requirements of the taxable bonds and the unfunded pension liabilities that remain unmet because the investment portfolio did not perform as anticipated.

25. If the City is considering the use of POBs, the CAO shall provide notification to the Council and Mayor of its intent to hire an independent municipal advisor and obtain an actuarial analysis to evaluate the cost/benefit of issuing POBs.

Section 108 Loans

26. Section 108 loans are made from federal funds and administered by HCID, but are guaranteed by other City funds, with an ultimate backstop from the General Fund. Accordingly, HCID, will adhere to the Debt Management Policy when structuring Section 108 loans.

27. Section 108 loans should be structured to be financially sound loans to assist in economic development projects.

28. Although the General Fund is the ultimate backstop, Section 108 loans will be structured with sufficient guarantees so that if the loan is in default, there will be another funding source besides the General Fund for the payment of the loan.

29. In compliance with the Block Grant Investment Fund (BGIF) Policy, block grants should be used as guarantor for payment on Section 108 loans.

Tax and Revenue Anticipation Notes

30. These notes are short-term borrowings in anticipation of taxes and revenues that have not yet been received. This borrowing is for cash flow purposes and is desirable to manage the timing mismatch between revenues and expenditures over the course of a fiscal year, or to take advantage of the opportunity to prepay annual pension obligations for a discount.

Bond Anticipation Notes

31. In certain circumstances, in anticipation of an expected revenue source, the City may issue short-term obligations to finance a capital project, with this obligation refunded with a more conventional long-term financing funded from the anticipated revenue source.

Grant Anticipation Notes

32. The City may issue short-term notes to be repaid with the proceeds of federal and state grants if appropriate for the project and in the best interest of the City. Generally, grant anticipation notes will only be issued if there is no other viable source of up-front cash for the project.

Other Types of Obligations

33. From time to time, the CAO may recommend other types of bonds or obligations that are beneficial to the City. The CAO will bring these to the Mayor and City Council for consideration.

Bonds with Special Designations

34. Green, Social and Sustainability Bonds are any type of bond instrument where the proceeds will be exclusively applied to eligible environmental and social projects or a combination of both. Green, Social and Sustainability Bonds are regulated instruments subject to the same capital market and financial regulation as other listed fixed income securities.

35. When determining whether to designate a bond issuance or transaction with a special designation such as Green, Social, or Sustainable, the City should examine and agree to comply with reporting (i.e. impact reporting) and disclosure requirements associated with the special designation.

36. Prior to issuing a bond with a special designation, the City, working with its consultants, should determine what if any independent/external review will be used such as a second party opinion, verification, certification, or bond scoring/rating process. These reviews will be made publically available.

37. Bonds with special designations may or may not result in premium pricing for the City and yet require additional reporting and disclosure. The City may choose to issue bonds with a special designation even when there is no additional pricing benefit based on other benefits such as:

    i. A greater diversification of the City's investor base that may result in potential increased demand and future premium pricing.

    ii. An alignment with the City's broader goals on environmental and social issues.

FIXED-RATE DEBT

Purpose and Use of Fixed-Rate Debt

1. Fixed-Rate Debt should be used to finance essential capital assets such as facilities, real property, and certain capital equipment where it is appropriate to spread the cost of the asset over more than one budget year. In doing so, future taxpayers, who will benefit from the investment, will help pay a share of its cost as well as current taxpayers.

2. The City shall restrict the use of Fixed-Rate Debt to the following general categories:

   a. Capital Equipment Financing
   b. Financing of Real Property

3. Projects that are not appropriate for spreading costs over future years will not be debt financed.

Capital Equipment Financing

4. Although lease obligations can be a routine and appropriate means of financing capital equipment, lease obligations also have the greatest impact on debt capacity and budget flexibility. Therefore, efforts shall be made to fund capital equipment with pay-as-you-go financing where feasible, and only the highest priority equipment purchases should be funded with lease obligations.

5. All equipment with a useful life of less than six (6) years shall be funded on a pay-as-you-go basis unless the following conditions are met:

   a. In connection with the Proposed Budget, the Mayor makes a finding that there is an "economic necessity" based on a significant economic downturn, earthquake, other natural disaster, or there are no other viable sources of funds to purchase the equipment;

   b. The City Council concurs with the Mayor's finding in the adoption of the budget; and,

   c. The various Debt Affordability Ceiling, as discussed earlier in Debt Affordability and Capacity, are not exceeded except as provided for in said section.

Financing of Real Property

6. Lease financing for facilities and real property is appropriate if the City desires to finance them from existing revenue sources, and not through voter-approved bonds secured by an increase in property taxes.

7. There are alternative ways to deliver large capital projects through public-private partnerships (P3) where government entities and private-sector businesses enter into agreements to finance, build, and/or operate the projects. As part of a P3 agreement, the government entities typically makes availability payments and possibly construction milestone payments. In some cases, the government entity may issue bonds to support the P3 project. When considering a P3 project, the City should determine the financial impacts and understand how the rating agencies will treat the availability payments and construction milestone payments as debt, as a contingent liability, or neither.

Asset Transfer Lease

8. An Asset Transfer is when an asset other than the asset being financed with the proceeds of lease revenue bonds is used to support the lease payments. The City will use "asset transfer" or “asset strip” leases to finance capital needs when there are no other viable financing options or to reduce the amount of interest that must be funded out of proceeds, since lease payments cannot commence until the asset that is being leased is available for use and occupancy.

9. An Asset Transfer Lease may be used if significant savings in financing costs can be generated compared to other financing alternatives. This type of legal structure secures the City’s lease financing commercial paper programs.

Capitalized Interest

10. Funding interest payments to investors out of debt proceeds (Capitalized Interest) increases the amount of debt to be issued and therefore should be avoided unless essential from a legal standpoint, as in the case of lease-purchase obligations secured by the financed asset, or a project financing expected to be repaid out of project revenues.

11. Interest on General Obligation Bonds will not be capitalized, except out of bond premium.

12. Generally, interest on lease-purchase obligations will be capitalized for a maximum of one year following a conservatively based estimate of project completion to provide a cushion for project slippage. Commercial paper can be used to provide interim project funding and avoid the cost of capitalized interest.

VARIABLE INTEREST RATE DEBT

Purpose and Use of Variable Interest Rate Debt

1. The City may use variable interest rate debt instruments as a balance sheet management tool, offsetting the risks inherent in variable rate assets such as investments. The maintenance of variable rate debt liabilities in an amount equal to or less than the amount of variable rate assets reduces the City's overall risk of exposure to changes in interest rates.

2. The City may use variable interest rate debt instruments to achieve an expected lower net cost of borrowing with respect to the City's debt by accepting a limited level of interest rate risk.

3. The City may use variable interest rate debt instruments as a tool for interim financing. Since the expectations of variable rate investors are, by their nature, short-term, variable rate debt can be redeemed on short notice. Variable rate debt does not have a fixed rate but varies anywhere from daily to yearly mode, thus allowing flexibility in refunding them at any time without any penalty in the form of a payment for calling the bonds (known as a call premium) or higher initial interest rates.

    a. Variable rate debt is a preferred tool for financing projects for which a prepayment or restructuring is a high probability.

    b. Certain variable rate products, most notably commercial paper, can be issued incrementally as funds are needed to finance current construction, and can reduce the long-term cost of construction financing. Usually commercial paper will be refunded with a long-term financing when the project is completed.

4. Before implementing any variable interest rate debt strategy designed to serve as a hedge against interest rate risk, the CAO will provide an analysis of asset and liability balance on a fund-by-fund basis and include it in its report to the Mayor and City Council when recommending variable rate debt.

5. When considering variable rate debt, it is important for the City to consider both the interest rate as well as the ongoing fees for credit enhancement (letter of credit) and remarketing of the bonds for an all-in cost comparison.

Types of Variable Interest Rate Debt

6. Variable Rate Bonds: It is often appropriate to issue variable rate bonds to diversify the debt portfolio and improve the match of assets to liabilities. Variable rate debt may also provide interest cost savings. If variable rate bonds are used, the CAO will periodically, but at least annually, determine if it is appropriate to convert the debt to a fixed interest rate.

7. Commercial Paper Notes: Commercial Paper (CP) is a short-term obligation with maturities ranging from 1 to 270 days. It is often used as interim financing until a project is completed to take advantage of lower interest rates. CP is typically backed by a bank letter of credit. Once a project is completed, the CAO may recommend refunding CP with a long-term financing obligation, if appropriate.

8. Synthetic fixed rate: In some markets, the City can simultaneously issue variable rate debt and enter into corresponding swap agreements that have the effect of creating a net fixed rate obligation at a lower net interest cost than the cost of issuing traditional fixed rate debt.

Considerations for Use of Variable Interest Rate Debt

9. The use of variable interest rate debt instruments should be analyzed as part of a balance sheet risk mitigation strategy to determine the appropriate amount of variable rate debt to be issued for risk mitigation purposes based on an analysis of the following factors with reference to the funds that will be repaying the debt:

    a. The historic average of cash balances over the course of several prior fiscal years.

    b. The projected cash balances based on known demands on a given fund and on City's fund balance policies.

    c. Any basis risk, such as the difference in the performance or duration of the City's investment vehicle compared to the variable rate debt instrument to be used by the City.

10. The use of variable interest rate debt instruments should be analyzed as part of a strategy that benefits from the out-performance of the variable rate market to fixed rate debt, and to determine the appropriate level of risk exposure for the City to accept.

    a. Based on market convention, a debt portfolio that contains up to 25% of variable rate debt is generally acceptable.

    b. In determining the amount of risk the City should take, the CAO should consider the specific fund exposed to the risk, and the budgetary flexibility that fund has in accommodating such risk.

    c. The analysis of risk exposure should be performed on the basis of "net" risk; that is, variable rate liability exposure net of any interest rate hedge provided by the availability of cash or risk mitigation tools such as interest rate swaps.

11. Recommendations regarding the use of variable interest rate debt instruments for Interim Financing should consider issuing commercial paper in connection with its major debt-financed construction programs, especially when interest earnings on construction and capitalized interest funds are at a rate lower than the rate of long-term bonds, thereby increasing the amount of debt that must be issued to fund a program. Variable rate debt should also be considered in lieu of a long-term fixed rate financing when a refunding or restructuring of the debt is likely due to potential changes in use of the project or credit quality.

<u>Selection and Diversification of Firms</u>

12. In selecting remarketing agent for variable rate debt and commercial paper dealers, the City generally should choose multiple remarketing agents to diversify its exposure and create more competition among the various remarketing agents.

13. In selecting institutions to provide liquidity or credit enhancement, the City should generally seek to diversify its exposure. At times, based on the amount of the transaction and the project itself, one institution may be chosen.

<u>Budgeting for Debt Service</u>

14. The CAO will analyze each variable interest rate debt program to determine the required budget amount for debt service. The factors to be analyzed include historic interest rates, projected interest rates, the effect of risk mitigation products such as interest rate swaps or caps, and the availability of fund balances carried-forward from savings in previous years. Due to the uncertainty inherit in the financial markets and to protect against potentially increasing variable interest rates, the CAO may recommend budgeting for higher than anticipated debt service payments as the appropriate budget amount. This analysis shall be done in conjunction with the formulation of the Mayor’s Proposed Budget.

<u>Monitoring and Reporting</u>

15. The CAO will manage the City’s variable interest rate debt programs, including comparing the performance of actual interest rates compared to the interest rates assumed at the time of budget formulation.

16. The CAO will recommend any appropriate mid-year budget adjustments to debt service payments based on the performance of actual interest rates compared to the interest rates assumed at the time of budget formulation.

17. The CAO will review and report on the following on a periodic basis, to the extent applicable:

a. Whether balances remaining at the end of the fiscal year, accruing from actual lower interest rates than those assumed in the budget process, will be reserved for future interest rate stabilization or otherwise applied for interest rate management or principal redemption.

b. The performance of the individual remarketing agents as compared to other remarketing agents, other similar programs and market indices.

c. The factual circumstances, such as balance sheet factors or the relative amount of debt that supported the original issuance of the variable rate debt.

INTEREST RATE SWAPS

In 2003, the City adopted an “Interest Rate Risk Mitigation Products Policy,” primarily to govern the use of interest rate swaps that, when combined with variable interest rate debt, resulted in a pair of matched obligations to create “synthetic” fixed rate obligations. Because the use of this approach is no longer common in the municipal market, and it is the City’s expectation that it will not be used in the future, the Interest Rate Risk Mitigation Products Policy has been deleted from the overall Debt Management Policy. A revised policy must be approved by the Mayor and City Council should the use of swaps be considered in the future.

MUNICIPAL IMPROVEMENT CORPORATION OF LOS ANGELES LEASE REVENUE PROGRAM

Purpose and Use of Municipal Improvement Corporation of Los Angeles (MICLA) Debt

1. MICLA is a non-profit corporation established by the City of Los Angeles in 1984 to serve as the lessor in lease-purchase transactions involving the City. MICLA was organized for social welfare purposes within the meaning of Section 501(c)(4) of the Internal Revenue Code. Board members were originally appointed by the Mayor and concurred by the City Council. Appointments to subsequent vacancies are made by the Board with the concurrence of the City Council. MICLA plays no active role in either the procurement of funds or equipment (the financed projects), but must review and approve the projects proposed by the City for financing through MICLA.

2. MICLA funding may come in the form of fixed interest rate, variable interest rate, or commercial paper.

3. The Mayor and City Council approved the MICLA Lease Revenue Commercial Paper Note Program (CP Program) for the purpose of financing the acquisition of various capital assets, including capital equipment and real property.

   a. The CP Program gives the City flexibility in financing its capital program, including quicker implementation and reduced costs.

   b. The City may from time to time have more than one MICLA CP Program for a specific purpose, such as improvements to the Los Angeles Convention Center.

   c. The CP Program is designed to be a form of Bond Anticipation Note, with lease revenue bonds being issued from time to time to refund the CP and provide permanent financing.

Administrative Procedures

4. On an annual basis, departments will send requests to have projects (capital equipment and real property) included in the Mayor's Proposed Budget. Final approval of all projects will be made through the Adopted Budget.

5. The CAO, at its discretion, will determine the appropriate financing method and instrument (fixed rate, variable rate or commercial paper) for each project. The CAO may use a combination of methods and instruments such as CP for the initial financing of a project and then refinance the outstanding CP into fixed rate debt once the capital equipment is purchased or when the real property acquisition and/or improvements are completed.

6. The CAO is responsible for the overall management of the MICLA program and has been delegated by the MICLA Board to perform most MICLA responsibilities. For the CP Program, these responsibilities include the following:

    a. Requesting that the dealers issue new CP notes as needed to fund approved projects.

    b. Managing the roll-over of maturing notes until there is a long-term take out financing.

    c. Planning and executing the take-out financing.

    d. Budgeting for debt service and on-going administrative expenses.

7. The City Controller is responsible for creating and maintaining all MICLA Funds, and approving demands in the same manner as other City funds. The City Controller will also provide quarterly reports to show the financial condition of all the MICLA Funds.

8. Each department that uses MICLA Funds is responsible for awarding contracts, encumbering funds, processing payment for approved projects, and providing the CAO sufficient information so that either CP or long-term debt can be issued in a timely as-needed basis.

9. Each department that uses MICLA Funds must submit an expenditure plan prior to gaining approval to fund any project and then submit updates every six (6) months or when required by the CAO for refinancing and compliance purposes.

10. On an annual basis, or as frequently as directed by the CAO, each department that uses MICLA Funds must submit a Certification of Use of Proceeds.

<u>Debt Structure</u>

11. It is good practice for the City to pay interest on CP as it becomes due to avoid issuing CP for interest that would be considered capitalized interest. Principal is usually refinanced into fixed rate or can be paid down as part of the Adopted Budget.

12. The decision to issue long-term debt with variable or fixed-rate bonds will be determined by interest rates, the market, and the useful life of the asset. Usually, when a project funded with CP is completed, it will be refinanced into long-term debt for the remainder of its useful life or retired with cash.

MICLA Operating Guidelines

13. MICLA funding (long-term and CP) approved in the Adopted Budget will be made available to departments as early in the fiscal year as practicable, unless a determination is made by the City Council that an alternate financing method can efficiently meet the City's needs.

14. Departments are required to follow the Post-Issuance Compliance procedures for all capital equipment or real property purchased through MICLA. Failure to do so could adversely affect the tax-exempt status of the bonds and commercial paper.

15. MICLA funding shall be provided for the purchase, improvement and construction of real property for which final plans and/or design have been completed and are ready for bid award.

16. MICLA funding shall only be provided for those capital equipment items that have the highest priority as described in the eligibility equipment guidelines below. More specific criteria may be provided in the Mayor's Annual Budget Policy Memo.

17. MICLA funds that remain unspent for a period longer than three years from the date of availability shall be subject to reversion to pay debt service and/or to offset new MICLA projects. Any exceptions shall require Mayor and City Council approval. The City Controller and the CAO are authorized to implement this Policy and to ensure funds and accounts are closed at the appropriate time.

18. MICLA authorizations that remain unspent for a period longer than three years from the date of availability shall be swept and no longer available for expenditure. Any exceptions shall require Mayor and City Council approval. The City Controller and the CAO are authorized to implement this Policy and to ensure funds and accounts are closed at the appropriate time.

19. The General Services Department (GSD) should only approve departmental purchase order changes resulting from safety or regulatory reasons that occur during the ordering period.

20. GSD and user departments will limit custom order vehicles to instances when manufacturers do not have standard models that will reasonably meet the City's operational requirements.

21. The following guidelines will be used to determine eligibility for capital equipment to be purchased with MICLA:

    a. All capital equipment should have a minimum useful life of six (6) years with a goal of financing mostly equipment with a useful life of 10 years or more. Useful life means a period of time during which an asset will provide the desired service to the department using it. The useful life of a piece of technical equipment could be substantially less than the term of its expected use by the City (e.g., computers due to technical obsolescence are not eligible).

b. Equipment must directly support the delivery of essential or core government services.

c. Large bulky equipment that are not easily transportable or hidden such as fire apparatuses, construction equipment, dozers, heavy trucks, and helicopters are generally appropriate for MICLA lease financing. The City will avoid debt financing equipment such as servers, software, radios, antennas, testing materials, police black and white patrol vehicles, and motorcycles as their depreciation and damage rates are typically high.

d. The City has a goal of financing capital equipment (plus set-up accessories) with a minimum total unit cost of $250,000. Not all capital equipment, however, can meet this goal due to the nature of the equipment.

CONSULTANTS

Retention of Consultants

1. All municipal advisors, bond counsel, underwriters, and other as needed market participants (i.e. trustees and arbitrage consultants) will be selected through a RFP or Request for Qualifications (RFQ) process, whichever is most appropriate given the circumstances.

2. In isolated instances, contracts may be awarded on a sole source basis if it is clear that a RFP/RFQ process would not be feasible or in the City's interests.

3. The City's contracting policies, in effect at the time, will apply to all contracts with public finance professionals, as permitted by federal and state laws. Generally, the terms of the contracts for municipal advisor and bond counsel will depend on each financing program.

4. Generally, municipal advisors, bond counsel teams, and underwriters who participate in City contracts should, but are not required, to have an office in the County of Los Angeles. Exceptions may be made for smaller firms serving as co-bond counsel or co-municipal advisor, and who are seeking to expand their client base and open new offices. Additionally, exceptions will be made when specialized expertise is required and such expertise is best provided by a firm located outside of the County.

5. Depending on particular expertise and consultant availability, some firms may be used on more than one program. Efforts will be made, however, to establish different teams to provide a number of firms the opportunity to participate in City contracts.

6. In the event that the City issues bonds through a negotiated sale, the selection of underwriters will generally be for a single transaction. However, underwriters may be selected for multiple transactions if multiple issuances are planned for the same project.

7. All municipal advisors or firms acting as municipal advisors must be registered with the Municipal Securities Rulemaking Board (MSRB).

General Municipal Advisors

8. The City will retain a general municipal advisory team to provide general advice on the City's debt management program, financial condition, budget options, and rating agency relations.

9. The general municipal advisors will structure the City's General Obligation Bond issuances and may be used on an as-needed basis to structure bond issuances that do not fall into the other categories of City debt obligations.

Municipal Advisors

10. The City will retain municipal advisors for each bond financing or transaction. The CAO will issue either a RFP or RFQ depending on the needs of the City.

11. The CAO will usually recommend two municipal advisors for each transaction depending on the size, complexity, and timing of the bond sale or transaction.

Legal Counsel Services

12. A Legal Counsel team may consist of separate Bond Counsel, Special Tax Counsel, and Disclosure Counsel depending on the specifics of the financing.

13. The City Attorney has Charter authority to hire outside counsel and will work with the CAO to hire appropriate legal counsel for each transaction.

Use of Independent Municipal Advisors on Competitive Sales

14. The City will hire municipal advisors who are independent and do not participate in the underwriting or trading of bonds or other securities.

15. Under certain circumstances it may be in the City's best interests to hire an investment banking firm to act as co-municipal advisor on a specific bond issue. These may be referred to as sell side advisors. In these instances, the firm will not be permitted to bid on the bonds for which the firm is acting as municipal advisor.

Use of Independent Municipal Advisors on Negotiated Sales:

16. In a negotiated sale, the City will hire municipal advisors who do not participate in the underwriting or trading of bonds or other securities to represent the City.

17. The City may hire an underwriter to act as municipal advisor to the City as part of a negotiated sale only if all independent municipal advisory firms, which responded to the RFP, are found to be unqualified.

18. If no independent municipal advisory firms were found to be qualified, an underwriter could be the municipal advisor. This firm would be prevented from participating in the underwriting of the transaction, including any profit sharing or other type of agreement with any member of the underwriting team for the transaction.

Use of Municipal Advisors for Investment Advice

19. Although the City Treasurer makes all investment decisions relative to temporary investments pending the expenditure of bond proceeds, the municipal advisor may provide investment advice on refinancings and other transactions with specialized investment needs.

20. Under no circumstances will the City enter into any investments for which the municipal advisor receives any fee or compensation from the investment provider or any outside party.

Disclosure by Financing Team Members

21. All financing team members will be required to provide full and complete disclosure, as required under MSRB rules, relative to any and all agreements with other financing team members and outside parties. The extent of the disclosure may vary depending on the nature of the transaction.

22. No agreements will be permitted that would compromise any firm's ability to provide independent advice that is solely in the best interests of the City, or that could reasonably be perceived as a conflict of interest.

POST-ISSUANCE TAX COMPLIANCE

The CAO is responsible for the development and implementation of procedures to ensure the compliance with applicable federal tax laws to maintain the tax-exempt status of its debt obligations. The CAO will have primary responsibility to coordinate with the applicable City departments and monitor the use of tax-exempt bond proceeds.

DISCLOSURE

Purpose

1. It is the policy of the City to fully comply with applicable state and federal securities law, and with the terms of its contractual agreements executed pursuant to Rule 15c2-12, adopted by the Securities and Exchange Commission, to provide financial and operating data periodically and timely notices of certain events or other reporting requirements.

Objectives

2. To ensure compliance with applicable federal and state securities laws with respect to the securities that it issues, including with respect to any statement or other communication that is intended (or reasonably can be expected) to be accessible to and reasonably relied upon by investors in the City's securities, in order to:

    a. Reduce and manage the City's (and its officials' and employees') exposure to liability for damages and enforcement actions based on misstatements or omissions;
    b. Demonstrate that the City has taken reasonable care to avoid, to the best extent possible, the occurrence of misstatements or omissions;
    c. Promote best practices regarding the preparation of disclosure documents;
    d. Avoid damage to residents of the City and other third parties stemming from misstatements or omissions; and
    e. Potentially reduce borrowing costs by establishing a reputation for providing good disclosure and thereby promoting good investor relations.

Procedures

3. The CAO is responsible for the development and implementation of procedures to ensure compliance with this Disclosure Policy. The procedures promulgated by the CAO will establish a framework for compliance with, and adherence to, applicable state and federal securities laws relating to disclosure with respect to the City's primary offering documents, continuing disclosure certificate and filings, required state reporting, audited financial statements, websites and social media, and any public statements, among other things as determined by the CAO.

CONDUIT FINANCING

General

1. Conduit Finance and City Liability: A "conduit financing" is the issuance of municipal securities by a governmental unit such as the City (referred to as the "issuer" or the "conduit issuer") to finance a project to be used primarily by a third party, which may be a for-profit entity engaged in private enterprise, a 501(c)(3) organization, or another government entity, which are all referred to as "conduit borrowers." In a conduit financing, the conduit borrower is responsible for making debt service payments on the bonds. If the project fails and the security goes into default, it is the conduit borrower's financial obligation, and not the City's obligation as the conduit issuer.

2. Applicability and Administration: This Conduit Financing Policy applies where the City acts as a conduit issuer for a 501(c)(3) organization to finance projects such as hospitals, retirement facilities, museums, and community centers. The CAO will be responsible for managing these conduit financings. Conduit financings associated with affordable housing shall be undertaken in accordance with HCID's debt policy. The CAO, however, has oversight responsibilities to review all bond transactions conducted by the HCID.

Conduit Procedures

3. Pre-application Meetings: Early communication with Council Office staff and the CAO is recommended. In most cases, a meeting of the conduit borrower, also referred to herein as the "applicant", the CAO, and the Council District staff, in which the project is located, will be required prior to submission of the formal application for funding.

4. Selection of Financing Team: The applicant will select its own financing team (e.g. underwriters and bond counsel), subject to the approval of the City.

5. Form of Application: Applications will be in the form of a letter request, to be submitted to the Council Office in which the project is located. The letter will request that the matter be forwarded to the CAO Debt Management Group for processing and reporting to the Mayor and City Council with a review of the project, identification of any potential impact to the City, and recommendations relative to proceeding with the conduit financing.

6. Application Information: The application letter should include the name, address and telephone number of all principals, including underwriter and bond counsel; a history of the applicant and its facilities; the population served by the facilities, including, if applicable, the percentages that receive some form of public assistance such as Medicare or Medical and the percentages that are residents of the City of Los Angeles; the population employed at the facilities; a complete

description of the proposed project(s) to be financed; the sources and uses of funds; and, a complete statement of the public purpose served through the conduit financing.

7. Application Review: City staff will review the application and obtain other information as required. A report will be made to the Mayor and City Council recommending whether or not the City should initiate financing activities. This action may include inducement of the project for federal tax purposes. Subsequently, assigned departmental staff will coordinate the completion of documents with the applicant, which will be submitted to the City Council for approval.

8. Public Hearing: The Tax Equity and Fiscal Responsibility Act of 1982 (the "TEFRA") requires that a public hearing be held to allow for the public to voice any objections to the project (the "TEFRA hearing"). If any entity other than the City (e.g. joint powers authority), is acting as the conduit issuer, the City's involvement begins and ends with the TEFRA hearing. In cases where the City is acting as the conduit issuer, the TEFRA hearing will be held in conjunction with consideration of the resolution authorizing the sale of the bonds.

Conditions for Consideration

9. Minimum Credit Ratings: Generally, all conduit financings should have a minimum credit rating of AA from any of the recognized rating agencies, and must be rated by at least two of the rating agencies. If the underlying rating of the borrower is not sufficient to provide the minimum rating, the financing must have credit support that will result in the minimum rating.

10. Public Benefit: The proposed conduit financing must have a public benefit to the residents of the City of Los Angeles that is sufficient to merit the City's participation.

11. Non-Sectarian Nature: While religious ownership and sponsorship of a project are acceptable, the project for which bond proceeds will be utilized cannot be used for any sectarian purpose. In analyzing the sectarian nature of a project, the City may rely on an opinion issued by the California State Attorney General on this matter, which address both federal and state constitutional prohibitions against public support for religious institutions.

12. Fees: The City will charge a fee, payable from bond proceeds, to pay for all of its costs in undertaking a conduit financing. The fee will vary depending on the complexity of the project and will be determined prior to adoption of the resolution authorizing the sale of the bonds.

13. Document Requirements: The following will be applicable to all documents related to conduit financings:

a. All contracts to which the City is a party will comply with all City contracting provisions in effect at the time the contracts are executed.

b. The transaction will be clearly structured as a limited obligation payable strictly from revenues from the conduit borrower, and the City will in no way be obligated to make payments on the bonds as a result of default.

c. The conduit borrower will fully indemnify the City.

d. The conduit borrower will provide annual financial statements to the City and a statement that there has been no default or other material event that requires disclosure. Additionally, the conduit borrower will covenant to expeditiously provide additional information to the City and investors as may reasonably be requested. The conduit borrower will covenant to immediately inform the City of any event that materially affects the organization and may require disclosure and be liable for any costs incurred in connection with providing additional disclosure to investors, bond rating agencies or other parties.

e. In addition to monthly statements and other information provided for in the trust indenture, the Trustee will covenant to provide information to the City and investors as may reasonably be requested.

f. Closing documents will include a contract with an arbitrage consultant.

g. The conduit borrower will deem the preliminary official statement final for SEC purposes and will sign the final official statement.

h. The name of the City of Los Angeles in the masthead of the official statement will be in the smallest type size used in that location and the name of the conduit borrower will be larger and more prominently displayed than that of the City.

i. Throughout the official statement, the limited obligation of the City will be clearly disclosed.

j. Private placements may not require marketing or disclosure documents such as an official statement or credit ratings.

GLOSSARY OF KEY TERMS

Amortize: To retire the principal of an issue by periodic payments either directly to bondholders or first to a Sinking Fund and then to bondholders.

Arbitrage: The difference between the interest paid on tax-exempt bonds and the interest earned by investing the proceeds of the bonds in higher yielding taxable securities. Federal tax laws generally restrict the ability to retain any arbitrage in connection with tax-exempt bonds.

Bond: A bond is a debt instrument issued for a period of more than one year, which allows the issuer to finance capital needs or refinance prior debt. The issuer is obligated to repay the investor a specified principal amount on a certain date, together with interest. The bond bears a stated rate(s) of interest or states a formula for determining that rate and matures on a date certain.

Bond Anticipation Notes: Short-term notes issued by a state or municipality, usually for capital projects, to borrow funds that are expected to be refinanced by a future long-term bond issue.

Bond Counsel: An attorney (or firm of attorneys) retained by the issuer to give a legal opinion that the issuer is authorized to issue proposed securities, the issuer has met all legal requirements necessary for issuance, and interest on the proposed securities will be exempt from federal income taxation and, where applicable, from state and local taxation.

Bond Proceeds: The money paid to the issuer by the purchaser or underwriter of a new issue of bonds. These moneys are used to finance the project or purpose for which these bonds were issued and to pay certain costs of issuance as may be provided in the bond documents.

Call Option: Redemption provisions in the bond contract for a security may provide the issuer the right to retire the debt fully or partially before the scheduled maturity date.

Capitalized Interest: Interest is commonly capitalized for the construction period of a revenue-producing project or a project financed with a lease, and sometimes for a period thereafter, so that the debt service expense does not begin until the project is expected to be operational and producing revenues.

Commercial Paper: Short-term notes with maturities ranging from one to 270 days, usually backed by a letter of credit with a bank, which are intended to be “rolled over” in a series of current refinancing as portions of the issue mature from time to time. Generally, the maturity of the commercial paper sold on each rollover is determined by market conditions at the time of rollover.

Competitive Sale: The sale of bonds to the bidder presenting the best sealed bid at the time and place specified in a published notice of sale.

Conduit Financing: The issuance of municipal securities by a governmental unit (the "conduit issuer") to finance a project to be used primarily by a third party (the "conduit borrower"), which may be a for-profit entity engaged in private enterprise, a 501(c)(3) organization, or another governmental entity. The security for this type of bond issue is the credit of the conduit borrower or pledged revenues from the project financed, rather than the credit of the conduit issuer.

Continuing Disclosure: Disclosure of material information relating to municipal securities provided to the marketplace, after the initial issuance of municipal securities, by the issuer. Such disclosures include, but not limited to, annual financial information and material event notices provided by the issuer or obligor to various information repositories for the bondholders, as contemplated under SEC Rule 15(c)2-12 or on a voluntary basis.

Costs of Issuance: The expenses associated with the sale of a new issue of municipal securities. These expenses may include, but are not limited to, legal fees, trustee fees, municipal advisor fees, printing, and rating agency fees. These fees are typically reported separately from underwriter's discount, defined below.

Credit Enhancement: The use of the credit of an entity other than the issuer to provide additional security in a bond or note financing to improve an issuer's credit standing. Examples include bond insurance and bank letters of credit, but also may refer more broadly to the use of any form of guaranty, secondary source of payment or similar additional credit-improving instruments.

Credit Ratings: Evaluations of the credit quality of notes and bonds usually made by independent rating services such as Fitch Ratings, Kroll Bond Rating Agency, Moody's Investors Service, and S&P Global Ratings. Credit ratings are intended to measure the probability of the full and timely repayment of principal and interest on municipal securities. Ratings are initially made before issuance, are periodically reviewed and are subject to change over time to reflect changes in an issuer's credit profile.

Debt Limit: The maximum principal amount of certain forms of debt that a municipal government is permitted to incur under constitutional, statutory or charter provisions.

Debt Ratio: Comparative statistics showing the relationship between a bond issuer's outstanding debt and factors affecting repayment. Such ratios are often used in the process of determining credit quality of an issue.

Debt Service: The amount of money necessary to pay interest on the outstanding bonds, the principal of maturing or redeemed bonds, and the required contributions to a sinking fund for term bonds.

Disclosure Counsel: An attorney or law firm retained by the issuer to provide advice on issuer disclosure obligations, to prepare the Official Statement and Continuing Disclosure Agreement, and to provide a 10b-5 Opinion.

Discount: Generally, the amount by which the par value of a Bond exceeds the sale price.

Electronic Municipal Market Access (EMMA): EMMA, a service provided by the Municipal Securities Rulemaking Board (MSRB), is a comprehensive, centralized online source for free access to municipal disclosures, market transparency data, and educational materials about the municipal securities market.

General Obligation Bond: A bond that is secured by the taxing power of an issuer. General Obligation Bonds issued by local governments are secured by a pledge of the issuer's ad valorem taxing power. Such bonds constitute debts of the issuer and, in California, require approval by two-thirds vote prior to a City's issuance.

Generally Accepted Accounting Principles (GAAP): Rules adopted by the Governmental Accounting Standards Board that establish standards for preparing financial statements of an enterprise, and by the Governmental Accounting Standards Board for preparing financial statements of state and local governments.

Governmental Accounting Standards Board (GASB): A standard-setting body, associated with the Financial Accounting Foundation. GASB prescribes standard accounting practices for governmental units in maintaining their financial records and releasing financial data to the public.

Grant Anticipation Note (GAN): A short-term note issued on the expectation of receiving grant moneys, usually from the federal government. The notes are payable from the grant funds, when received.

Green Bonds: Any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance projects with clear environmental benefits including, but not limited to, renewable energy, energy efficiency, pollution prevention and control, Green buildings, terrestrial and aquatic biodiversity conservation, and clean transportation.

Interest Rate: The annual rate, expressed as a percentage of principal, payable for use of borrowed money.

Interest Rate Risk: The risk associated with changes in general interest rate levels or Yield Curves (see Yield Curves below).

Judgment Obligation Bond: A bond issued to finance obligations arising from unusual and non-recurring court judgments.

Lease Revenue Bond: A bond from an issue that is secured by lease payments made for the use of capital equipment or facilities, either by leasing the facilities financed by the issue or the lease-leaseback of existing facilities (an "asset transfer"). Typically, lease revenue bonds are used to finance construction of facilities used by a state or municipality, which leased the facilities from a financing authority. Under California case law, the state or municipality is generally obligated to appropriate funds from its general tax revenues to make lease payments as long as it has beneficial use or occupancy of the leased property.

Mello-Roos Bond: A bond issued by a Mello-Roos Community Facilities District (a "CFD") to finance public improvements and services. Bonds issued by a CFD are secured by the levy of specified special taxes, which must be approved by a two-thirds vote of the registered voters or landowners within the proposed district. Pursuant to the Mello-Roos Community Facilities Act of 1982, any county, city, special district, school district, or joint powers authority can establish a CFD.

Municipal Advisor: A consultant who advises the issuer on matters related to a new issue, such as structure, timing, marketing, fairness of pricing, terms and credit ratings. A municipal advisor can also provide financial advice on matters unrelated to a new issue such as cash flow and investments. All municipal advisors must be registered with the MSRB.

Municipal Securities Rulemaking Board (MSRB): An independent self-regulatory organization, established by the Securities Acts Amendments of 1975, consisting of representatives of securities firms, bank dealers, municipal advisors, issuers, investors and the public, that is charged with primary rulemaking authority over municipal securities dealers and municipal advisors in connection with their municipal securities and municipal advisory activities. MSRB rules are approved by the SEC, and enforced by the SEC and the federal banking regulators depending on the regulated entity.

Negotiated Sale: The sale of new issue of bonds by an issuer directly to a selected underwriter or underwriting syndicate in which the terms and price are negotiated.

Official Statement: A document prepared by or on behalf of the issuer of bonds which discloses material information on the new bonds such as the purpose of the issue, how the bonds will be repaid, and the financial and economic characteristics of the issuer, conduit borrower, or other obligated person with respect to the offered securities. Investors may use this document to evaluate the credit quality of the bond issue.

Remarketing Agent: A broker-dealer who is responsible for reselling variable rate bonds that have been tendered for purchase by the issuer.

Request for Proposal (RFP): A formal process by which an issuer gathers written information, such as qualifications, experience, and proposed compensation arrangements, from professionals for the purpose of selecting underwriters, municipal advisors, and attorneys.

Request for Qualifications (RFQ): A more general form of "Request for Proposals."

Revenue Bond: A bond that is payable from a specific source of revenue and to which an issuer's taxing power or general fund revenues are not pledged.

Par Value: Refers to the principal amount of the bond that must be paid at maturity. A bond may be purchased "at par" meaning the price of the bond is equal to its principal amount. Par value is also referred to as "face amount" or "face value" of a bond.

Private Placement: A private placement is a type of negotiated sale in which the issuer sells bonds or places another form of loan directly to a private investor, generally a bank.

Rating Agency: An organization that provides ratings that indicate the relative credit quality of liquidity characteristics of bonds. The nationally recognized rating agencies by the SEC are Fitch Ratings, Kroll Bond Rating Agency, Moody's Investors Service and S&P Global Ratings.

Redemption: The payment of principal of a bond at maturity or prior to maturity pursuant to redemption provisions in the bond documents.

SEC Rule 10b-5: A SEC rule that makes it unlawful for any person, in connection with the purchase or sale of any security, to employ an device, scheme, or artifice to defraud; to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person.

SEC Rule 15(c)2-12: A SEC rule setting forth certain obligations of the underwriters to receive, review and disseminate official statements prepared by the issuers of most primary offerings of bonds and to obtain continuing disclosure agreements from issuers and provide material event notices and annual financial information on a continuing basis. In addition, the rule requires broker-dealers to have access to such continuing disclosure information in order to make recommendations of the bonds in the secondary market.

Securities Exchange Commission (SEC): The federal agency responsible for the supervising and regulating the securities industry. Generally, municipal securities are exempt from the SEC's registration and reporting requirements. Broker-dealers involved with municipal securities are subject to SEC regulation and oversight. The SEC also has responsibility for the approval of MSRB rules and has jurisdiction, pursuant to SEC Rule 10b-5, over fraud in the sale of municipal securities.

Social Bonds: Any type of bond instrument where the proceeds will finance projects that directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes, especially but not exclusively for a target population(s). Social Project categories include providing and/or promoting: affordable basic infrastructure, access to essential services, affordable housing, employment generation, food security, or socioeconomic advancement and empowerment.

Special Assessment Bonds: An obligation payable from revenues of a special assessment. A special assessment is a charge imposed against a property in a particular locality because that property receives a special benefit by virtue of some public improvement, separate and apart from the general benefits accruing to the public at large.

Sustainability Bonds: Any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance a combination of Green and Social Projects.

Tax and Revenue Anticipation Notes ("TRANs"): Short-term notes issued in anticipation of receiving tax receipts or other revenues at a future date.

Tax Equity and Fiscal Responsibility (TEFRA) Act of 1982: A federal tax law which requires, among other things, as a pre-condition for the exclusion from gross income for federal income tax purposes of interest on all qualified private activity bonds, that the issue be approved either by an elected official or body of elected officials of the applicable governmental entity after a public hearing following reasonable public notice.

TEFRA Hearing: A public accountability procedure involving the legislative body of the local agency in which the proposed project is located. During such process, the legislative body conducts a public hearing providing members of the community the opportunity to speak on behalf of or again the nature and location of the proposed project to be financed with tax-exempt bonds.

True Interest Cost: The rate, compounded semi-annually, necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue of bonds.

Trust Indenture: A contract between the issuer and a trustee for the benefit of the bondholders.

Trustee: A financial institution with trust powers that acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the trust indenture.

Underwriter: A broker-dealer that purchases a new issue of municipal bonds from the issuer for resale in a primary offering.

Underwriter's Counsel: An attorney or law firm retained to represent the interests of the underwriter in connection with the purchase of a new issue of bonds.

Underwriter's Discount: The fee, expressed in dollars per $1,000 of bonds, paid to underwriters in connection with an issuance of bonds. The Underwriter's Discount typically includes the takedown, which is the sales commission associated with the placement of bonds with investors, and expenses, which are the reimbursable expenses of the underwriters related to the financing. Less typically and usually for longer term and highly complex financings, Underwriter’s Discount may also include a management fee.

Underwriting Syndicate: A group of underwriters formed to purchase a new issue of municipal bonds from the issuer and offer it for resale to the general public.

Yield Curve: Refers to the graphical or tabular representation of interest rates across different maturities. The presentation often starts with the shortest-term rates and extends towards longer maturities. It reflects the market's views about implied inflation/deflation, liquidity, economic and other market forces.