

Debt Management Policy

Table of Contents

Section 1 – Policy

Section 2 – Scope

Section 3 – Objectives

3.1 Budget Integration

3.2 Biennial Review

Section 4 – Delegation Authority

1.1 Financing Team Definitions and Roles

1.2 Consultant Selection

Section 5 – Purpose of Debt

Section 6 – Methods of Financing

6.1 Cash Funding

6.2 Interfund Borrowing

6.3 Bank Loans / Lines of Credit

6.4 Other Loans

6.5 Bond Financing

6.5.1 General Obligation Bonds

6.5.2 Lease Financings

6.5.3 Revenue Bonds

6.5.4 Assessment Bonds

6.5.5 Special Tax Bonds

6.5.6 Refunding Obligations

6.5.7 Other Obligations

6.5.8 Alternative Financing Structures

Section 7 – Structure and Term

- 7.1 Tax Status
- 7.2 Term of Debt
- 7.3 Debt Repayment Structure
- 7.4 Bond Maturity Options
- 7.5 Interest Rate Structure
- 7.6 Derivatives
- 7.7 Credit Enhancement
- 7.8 Debt Service Reserve Fund
- 7.9 Call Options / Redemption Provisions
- 7.10 Debt Limits

Section 8 – Method of Issuance and Sale

- 8.1 Method of Sale
 - 8.1.1 Competitive Sales of Bonds
 - 8.1.2 Negotiated Sale of Bonds
 - 8.1.3 Private Placement
- 8.2 Initial Disclosure Requirements

Section 9 – Creditworthiness Objectives

- 9.1 Bond Ratings
- 9.2 Rating Agency Communications

Section 10 – Post Issuance Administration

- 10.1 Notification of the California Debt and Investment Advisory Commission (CDIAC)
- 10.2 Investment of Proceeds
- 10.3 Use of Bond Proceeds
- 10.4 Continuing Disclosure
- 10.5 Arbitrage Rebate Compliance and Reporting

- 10.6 Compliance with Other Bond Covenants
- 10.7 Retention
- 10.8 Investor Relations
- 10.9 Additional Requirements for Financial Statements

Section 11 – Training

Section 12 - Glossary

Section 1: Policy

This Debt Management Policy sets forth debt management objectives for the City of Napa, the Housing Authority of the City of Napa, the Successor Agency to the Napa Community Redevelopment Agency, the City of Napa Industrial Development Authority, the City of Napa Joint Public Finance Authority, and any other entity for which the City Council acts as legislative body, and the term “City” shall refer to each of such entities.

This Debt Management Policy establishes general parameters for issuing and administering debt. Recognizing that cost-effective access to the capital markets depends on prudent management of the Debt Program, the City Council has adopted this Debt Management Policy by resolution.

This Debt Management Policy is intended to comply with California Government Code Section 8855 (i).

Section 2: Scope

The guidelines established by this policy will govern the issuance and management of all debt funded for long term capital financing needs and not for general operating functions. When used in this policy, “debt” refers to all forms of indebtedness and financing lease obligations. The Finance Department recognizes that changes in the capital markets and other unforeseen circumstances may require action that deviates from this Debt Management Policy. In cases that require exceptions to this Debt Management Policy, approval from the City Council will be necessary for implementation.

Section 3: Objectives

The purpose of this Debt Management Policy is to assist the City in pursuit of the following equally important objectives, while providing full and complete financial disclosure and ensuring compliance with applicable state and federal laws:

- Minimize debt service and issuance costs
- Maintain access to cost effective borrowing
- Achieve the highest practical credit rating
- Ensure full and timely repayment of debt
- Maintain full and complete financial disclosure and reporting
- Ensure compliance with applicable state and federal laws

3.1 Budget Integration – The decision to incur new indebtedness should be integrated with the policy decisions embedded in the City Council-adopted biennial Operating Budget and Capital Improvement Program Budget. The annual debt service payments shall be included in the Operating Budget.

The City will integrate its debt issuances with the goals of its Capital Improvement Program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the City’s public purposes. The City will seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

- 3.2 Biennial Review – Recognizing that cost-effective access to the capital market depends on prudent management of the City’s debt program, a biennial review of the debt policy should be performed. The debt policy will be included as an Appendix in the biennial Budget adopted by City Council. Any substantive changes to the policy shall be brought to the City Council for consideration and approval.

Section 4: Delegation Authority

Pursuant to the provisions of Section 37209 and 40805.5 of the Government Code of the State of California, the City’s chief financial officer (“Finance Director”) shall be responsible for all of the financial affairs of the City. Through this Debt Management Policy, the governing body hereby grants the Finance Director the authority to select the financing team (subject to the City’s contracting policies set forth in Napa Municipal Code Chapter 2.91), coordinate the administration and issuance of debt, communicate with the rating agencies, fulfill all of the pre-issuance and post-issuance requirements imposed by or related to state law, federal tax law and federal securities law.

- 4.1 Financing Team Definitions and Roles – The financing team is the working group of City staff and outside consultants necessary to complete a debt issuance including but not limited to bond counsel, disclosure counsel, underwriter, municipal advisor, trustee, pricing consultant and/or arbitrage consultant. As used in this Policy, when the financing team acts collectively, it is providing advice to the Finance Director or the City Manager related to debt issuance. Individual members of the financing team are responsible for individually taking actions within the respective area of expertise of each member as necessary to complete a debt issuance.

Typically the Finance Director, the City Attorney, the City Manager, and appropriate Department Head(s) form the City staff portion of the Financing Team. Other staff members or designees may be appointed to the Financing Team.

- 4.2 Consultant Selection –The City will consider the professional qualifications and experience of consultants as it relates to the particular bond issue or other financing under consideration. In certain instances, the City will conduct a request for proposal/qualification process to select such consultants. Other professionals may be selected by the Finance Director on an as-needed basis.

Section 5: Purpose of Debt

Debt may be issued for public purposes as authorized by law. The general purposes for which debt may be issued include capital projects, refunding of outstanding debt, cash management or interim financing, litigation settlements, or unfunded long-term liabilities (i.e. pension or other post-employment benefits).

Section 6: Methods of Financing

The Finance Director will investigate all possible financing alternatives including, but not limited to bonds, loans, state bond pools, and grants. The City also has an impact fee program whereby new development pays its fair share for the increased capital and operating costs that result from new construction. Although impact fee payments are restricted to specific projects or types of projects, the use of these payments can be an important source of financing for certain capital projects.

- 6.1 Cash Funding – The City funds a significant portion of capital improvements from reserves accumulated from one-time revenues, which have been set aside for investment in the City’s infrastructure.

- 6.2 Inter-fund Borrowing – The City may borrow internally from other funds with surplus cash in lieu of issuing bonded debt. Purposes warranting the use of this type of borrowing could include short term cash flow imbalances, interim financing pending the issuance of bonds, or long-term financing in lieu of bonds for principal amounts of under \$10 million. The City funds from which the money is borrowed shall be repaid with interest based upon the earning rate of the City’s investment pool (LAIF). The Finance Director shall also exercise due diligence to ensure that it is financially prudent for the Fund making the loan. Inter-fund loans will be evaluated on a case-by-case basis. Any borrowing between two City funds requires approval by City Council by resolution. The purpose of inter-fund borrowing is to finance high priority needs and to reduce costs of interest, debt issuance and/or administration.
- 6.3 Bank Loans / Lines of Credit – Although the City does not typically utilize lines of credit for the financing of capital projects, financial institution credit is an option for municipal issuers and may be evaluated as a financing option.
- 6.4 Other Loans – The City will evaluate other loan programs, including but not limited to State loans such as the Water Resources Control Board’s revolving fund loans and the federal government’s Water Infrastructure Finance and Innovation Act (WIFIA) financing for the construction of water, wastewater and storm drain infrastructure projects.
- 6.5 Bond Financing – The City may issue any bonds which are allowed under federal and state law including but not limited to general obligation bonds, lease revenue bonds, certificates of participation, revenue bonds, land-secured (assessment and special tax) bonds, and refunding bonds (see below for detail).
- 6.5.1 General Obligation Bonds – General Obligation Bonds (GO Bonds) may only be issued with two-thirds approval of the City’s registered voters. The California State Constitution (Article XIII A, Section 1(b)) limits the use of the proceeds from GO Bonds to “the acquisition or improvement of real property”. Parks, Community Centers and Public Safety facilities are examples of the type of facilities that could be financed with GO Bonds.
- 6.5.2 Lease Financings – Lease financings may take a variety of forms, including certificates of participation, lease revenue bonds and direct leases (typically for equipment). When the City finances acquisition or construction of capital improvements or equipment with a lease financing, the City agrees to lease either the financed asset or a different asset and, most commonly, the City’s lease payments are securitized in the form of certificates of participation or lease revenue bonds.
- 6.5.3 Revenue Bonds – Revenue Bonds are generally issued by the City for enterprise funds that are financially self-sustaining without the use of taxes and therefore rely on the revenues collected by the enterprise fund to repay the debt.
- 6.5.4 Assessment Bonds – The Improvement Bond Act of 1915 (Streets and Highways Code Section 8500 et seq.) and other state laws, subject to Article XIID of the California Constitution, allow the City to issue bonds to finance improvements that provide “specific benefit” to the assessed real property. Installments are collected on the secured property tax roll of the County. The City, as a charter city, may also adopt assessment laws that are applicable within its boundaries. This type of financing is secured by the assessments paid by real property owners and does not obligate the City’s general fund or other funds.
- 6.5.5 Special Tax Bonds – Under the Mello-Roos Community Facilities Act of 1982, the City may issue bonds on behalf of a Community Facilities District (CFD) to finance capital facilities, most commonly in connection with new development. These bonds must be approved by a two-thirds vote of the qualified

electors in the CFD, which the Mello-Roos Act defines to mean registered voters if there are 12 or more registered voters in the CFD and, if there are fewer than 12 registered voters, the landowners in the CFD. Bonds issued by the City under the Mello-Roos Act are secured by a special tax on the real property within the CFD. The financed facilities do not need to be physically located within the CFD. The City, as a charter city, may also adopt special tax financing laws that are applicable within its boundaries.

Because this type of financing is secured by the special taxes levied on taxable property in the CFD, it does not obligate the City's general fund or other funds.

- 6.5.6 Refunding Obligations – Pursuant to the Government Code and various other financing statutes applicable in particular situations, the City Council is authorized to provide for the issuance of bonds for the purpose of refunding any long-term obligation of the City. Absent any significant non-economic factors, a refunding should produce minimum net debt service savings (net of reserve fund earnings and other offsets, and taking transaction costs into account) of at least 3% of the par value of the refunded bonds on a net present value basis, using the refunding issue's True Interest Cost (TIC) as the discount rate, unless the Finance Director determines that a lower savings percentage is acceptable for issues or maturities with short maturity dates. Non-economic factors may include restructuring debt service or modifying indenture provisions.
- 6.5.7 Other Obligations – There may be special circumstances when other forms of debt are appropriate and may be evaluated on a case-by-case basis. Such other forms include, but are not limited to: bond anticipation notes, grant anticipation notes, tax allocation bonds, pension obligation bonds, judgement obligation bonds, etc.
- 6.5.8 Alternative Financing Structures - The City will consider alternative financing structures that the City Council concludes are in the public interest, including, but not limited to, public-private partnerships ("P3s"), and may combine any such alternative financing structure with one or more of the financing methods described above.

Section 7: Structure and Term

- 7.1 Tax Status – The City, in conjunction with bond counsel, will structure bonds to have the most advantageous tax status given the nature of the project or facility being funded and the extent to which such bond proceeds are used for private activity. Fully tax-exempt bonds are the more economical option but come with the most restrictions. When flexibility is warranted, the City may utilize less restrictive taxable bonds after careful consideration of the tradeoffs.

- 7.2 Term of Debt – Debt will be structured for the shortest period possible, consistent with a fair allocation of costs to current and future users. The standard term of long-term debt borrowing is typically 15-30 years.

Consistent with its philosophy of keeping its capital facilities and infrastructure systems in good condition and maximizing a capital asset's useful life, the City will make every effort to set aside sufficient current revenues to finance ongoing maintenance needs and to provide reserves for periodic replacement and renewal.

Generally, no debt will be issued for a period exceeding the useful life or average useful lives of projects to be financed.

- 7.3 Debt Repayment Structure – In structuring a bond issue, the City will manage the amortization of the debt and, to the extent possible, match its cash flow to the anticipated debt service payments. In addition, the City will

seek to structure debt with aggregate level debt service payments over the life of the debt. Structures with non-level debt service will be considered when one or more of the following exist:

- Natural disasters or extraordinary unanticipated external factors make payments on the debt in the early years prohibitive
- Such structuring is beneficial to the City's aggregate overall debt payment schedule
- Such structuring will allow debt service to more closely match project revenues during specific years of the project's operation

7.4 Bond Maturity Options – For each issuance, the City will select current interest bonds (CIBs). The CIBs will be serial bonds or term bonds, or both. On the occasions where circumstances warrant, the City may approve capital appreciation bonds (CABs). The decision to use CIBs or CABs is typically driven by market conditions.

7.5 Interest Rate Structure – The City currently issues securities on a fixed interest rate basis only. Fixed rate securities ensure budget certainty through the life of the issue and avoid the volatility of variable rates. Variable rate bonds bear a variable interest rate which resets periodically based on a predetermined index or formula. Variable rate bonds can provide a lower borrowing cost over the long term than fixed rate bonds and can provide financial flexibility, but bear additional risks. In determining the use of variable rate debt, the following factors should be considered: interest rate risk, liquidity risk, remarketing risk, and tax risk. Prior to issuing variable rate debt, the City should evaluate the impact of rising or considerably higher rates to verify the City's ability to pay debt service on all outstanding obligations. The City will limit the amount of variable rate debt to no more than 10% of all outstanding debt.

7.6 Derivative products – Because of their complexity, unless otherwise approved by the City Council, Derivative Products such as interest rate swaps are prohibited.

7.7 Credit Enhancement – Credit enhancement may be used to improve or establish a credit rating on a City debt obligation. Types of credit enhancement include letters of credit and bond insurance. The Finance Director will recommend the use of a credit enhancement if it reduces the overall cost of the proposed financing or if the use of such credit enhancement furthers the City's overall financial objectives.

7.8 Debt Service Reserve Fund – Debt service reserve funds are held by the Trustee to make principal and interest payments to bondholders in the event that pledged revenues are insufficient to do so. The City will fund debt service reserve funds when it is in the City's overall best financial interest. The City may decide not to utilize a reserve fund if the Finance Director, in consultation with the underwriter and municipal advisor, determines there would be no adverse impact to the City's credit rating or interest rates.

Per Internal Revenue Service rules, the size of the reserve fund on a tax-exempt bond issuance usually is the lesser of

- 10% of the initial principal amount of the debt
- 125% of average annual debt service; or
- 100% of maximum annual debt service

In lieu of holding a cash funded reserve, the City may substitute a surety policy or other credit instrument in its place. The decision to cash fund a reserve fund rather than to use a credit facility is dependent upon the cost of the credit instrument and the investment opportunities.

7.9 Call Options / Redemption Provisions – A call option or optional redemption provision gives the City the right to prepay or retire debt prior to its stated maturity date. This option may permit the City to achieve interest savings in the future through the refunding of the bonds. Often the City will pay a higher interest rate as compensation to the buyer for the risk of having the bond called in the future. In addition, if a bond is called, the holder may be entitled to a premium payment (call premium). Because the cost of call options can vary depending on market conditions, an evaluation of factors will be conducted in connection with each issuance. The Finance Director shall evaluate and recommend the use of a call option on a case-by-case basis.

7.10 Debt Limits – California Government Code Section 43605 states the City shall not incur general obligation bonded indebtedness payable from the proceeds of property tax which exceeds 15 percent of the assessed value of all real and personal property of the City.

General Fund Supported Debt: The cumulative annual debt service on all debt payable from the General Fund is restricted by this Debt Management Policy to no more than 15 percent of annual General Fund Revenue.

Enterprise Fund Supported Debt: Debt supported by Enterprise Funds should maintain a minimum ratio of net operating income to annual debt service (“coverage ratio”) that the Finance Director concludes is financially prudent. Typically, a higher coverage ratio produces a better credit rating and lower interest rates, yet if too high, potentially may restrict efficient Enterprise operations or unduly induce unneeded user rate increases. Therefore, the City should balance the benefits of higher ratings with the operational impact of high coverage ratios.

Section 8: Method of Issuance and Sale

8.1 Method of Sale

Debt issues are sold to a single underwriter or to an underwriting syndicate, either through a competitive sale or a negotiated sale. A negotiated sale may involve the sale of securities to investors through an underwriter or the private placement of the securities with a financial institution or other sophisticated investor. The selected method of sale will be that which is most beneficial to the City in terms of lowest net interest rate, most favorable terms in financial structure, and market conditions.

8.1.1 Competitive Sales of Bonds – In a competitive sale, underwriters are requested to submit a bid which is a firm offer for purchase of bonds. A contract is awarded to the bidder with the lowest interest cost. Conditions conducive for competitive sales include stable market, strong credit rating, or the bond structure is standard and not requiring explanation or special marketing.

8.1.2 Negotiated Sale of Bonds – A method for sale for bonds, notes, or other financing vehicles in which the City selects in advance, on the basis of proposals received or by other means, one or more underwriters to work with it in structuring, marketing and finally offering an issue to investors. The negotiated sale method is often used when the issue is: a first-time sale by a particular issuer (a new credit), a complex security structure, such as variable rate transaction, an unusually large issue, or in a highly volatile or congested market where flexibility as to bond sale timing is important

8.1.3 Private Placement – A private placement is a variation of a negotiated sale in which the City, usually with the help of a municipal advisor and placement agent, will attempt to place the entire new issue directly with an investor. The investor will negotiate the specific terms and conditions of the financing before agreeing to purchase the issue. Private placements are generally undertaken because the terms of

the private placement are more advantageous than the capital markets, the credit is weak or a rating cannot be obtained, the structure is not available in the capital markets or the bond proceeds are needed on short notice.

8.2 Initial Disclosure Requirements

The City acknowledges its disclosure responsibilities. Under the guidance of Disclosure Counsel, the City will distribute or cause an underwriter to distribute its Preliminary Official Statement and final Official Statement (neither is typically required in a private placement, although in some cases a “private placement memorandum” may be required by the investor).

The Financing Team shall be responsible for soliciting “material” information (as defined in Securities and Exchange Commission Rule 10b-5) from City departments and identifying contributors who may have information necessary to prepare portions of the Official Statement or who should review portions of the Official Statement. In doing so, each member of the Financing Team shall confirm that the Official Statement accurately states all “material” information relating to the decision to buy or sell the subject bonds and that all information in the Official Statement has been critically reviewed by an appropriate person.

In connection with an initial offering of securities, the City and each member of the Financing Team will:

- Identify material information that should be disclosed in the Official Statement;
- Identify other persons that may have material information (contributors);
- Review and approve the Official Statement;
- Ensure the City’s compliance, and that of its related entities, with federal and state security laws, including notification to the California Debt and Investment Advisory Commission (“CDIAC”) of the proposed debt issue no later than 30 days prior to the sale of any debt issue, and submission of a final report of the issuance to the CDIAC by any method approved by the CDIAC.

The Financing Team shall critically evaluate the Official Statement for accuracy and compliance with federal and state securities laws. The approval of an Official Statement shall be placed on the City Council agenda for deliberation as a separate matter of business, and shall not be considered as a Consent Calendar item. The staff report will summarize the City Council’s responsibilities with respect to the Official Statement and provide the City Council the opportunity to review a substantially final Official Statement. The City Council shall undertake such review as deemed necessary by the City Council to fulfill the City Council’s securities law responsibilities.¹

For any privately placed debt with no Official Statement, the final staff report describing the issue and such other documents will be provided to the City Council for approval.

¹ The Securities and Exchange Commission (the SEC), the agency with regulatory authority over the City’s compliance with the federal securities laws, has issued guidance as to the duties of the City Council with respect to its approval of the POS. In its “Report of Investigation in the Matter of County of Orange, California as it Relates to the Conduct of the Members of the Board of Supervisors” (Release No. 36761 / January 24, 1996) (the “Release”), the SEC stated that, if a member of the City Council has knowledge of any facts or circumstances that an investor would want to know about prior to investing in the bonds, whether relating to their repayment, tax-exempt status, undisclosed conflicts of interest with interested parties, or otherwise, he or she should endeavor to discover whether such factors are adequately disclosed in the Official Statement. In the Release, the SEC stated that the steps that a member of the City Council would take include becoming familiar with the POS and questioning staff and consultants about the disclosure of such facts.

Section 9: Creditworthiness Objectives

Ratings are a reflection of the general fiscal soundness of the City and the capabilities of its management. Typically, the higher the credit ratings are, the lower the interest cost is on the City's debt issues. To enhance creditworthiness, the City is committed to prudent financial management, systematic capital planning, and long-term financial planning. To that end, the City has an objective of maintaining a credit rating of at least AA- (Standard and Poor's); however, the City recognizes that external economic, natural, or other events may, from time to time, affect the creditworthiness of its debt.

The most familiar nationally recognized bond rating agencies in the US municipal bond market are Standard and Poor's, Moody's Investors Service, and Fitch Ratings. When issuing a credit rating, rating agencies consider various factors including but not limited to:

- City's fiscal status
- City's general management capabilities
- Economic conditions that may impact the stability and reliability of debt repayment sources
- City's general reserve levels
- City's debt history and current debt structure
- Project being financed
- Covenants and conditions in the governing legal documents

9.1 Bond Ratings – The Financing Team will assess whether a credit rating should be obtained for an issuance. The City typically seeks a rating from at least one nationally recognized rating agency on new and refunded issues being sold in the public market. The Finance Director, working with the Financing Team, shall be responsible for determining which of the major rating agencies the City shall request provide a rating. When applying for a rating on an issue, the City and members of the Financing Team shall prepare a presentation for the rating agency when the City determines that a presentation is in the best interests of the City.

9.2 Rating Agency Communications – The Finance Director is responsible for maintaining relationships with the rating agencies that assign ratings to the City's various debt obligations. This effort shall include providing the rating agencies with the City's financial statements, if applicable, as well as any additional information requested.

Section 10: Post Issuance Administration

10.1 Notification to the CDIAC – The City shall work with its bond counsel to submit a report of final sale to the CDIAC by any method approved by the CDIAC by the time required by the CDIAC after the sale of the debt. The report shall include the information required by CDIAC.

10.2 Investment of Proceeds – The Finance Director shall invest bond proceeds and reserve funds in accordance with the applicable indenture or trust agreement, utilizing competitive bidding when possible. All investments will be made in compliance with the City's investment policy objectives of safety liquidity and then yield. The investment of bond proceeds and reserve funds shall comply with federal tax law requirements specified in the indenture or trust agreement and the tax certificate.

Unexpended bond proceeds shall be held by the bank trustee. The trustee will be responsible for recording all investments and transactions relating to the proceeds and providing monthly statements regarding the investments and transactions.

10.3 Use of Bond Proceeds – The Finance Director is responsible for ensuring debt proceeds are spent for the intended purposes identified in the related legal documents and that the proceeds are spent in the time frames identified in the tax certificate prepared by the City’s bond counsel. Whenever reasonably possible, proceeds of debt will be held by a third-party trustee and the City will submit written requisitions for such proceeds. The City will submit a requisition only after obtaining the signature of the Finance Director. In those cases where it is not reasonably possible for the proceeds of debt to be held by a third-party trustee, the Finance Director shall retain records of all expenditures of proceeds through the final payment date for the debt.

10.4 Continuing Disclosure – The Finance Director or designee will ensure the City’s annual financial statements and associated reports are posted on the City’s web site. The City will also contract with consultant(s) to comply with the Securities and Exchange Commission Rule 15c2 by filing its annual financial statements, other financial and operating data and notices of enumerated events for the benefit of its bondholders on the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board (MSRB).

The City shall submit an annual report to the CDIAC for any issue of debt for which it has submitted a report of final sale on or after January 21, 2017. The annual report shall comply with the requirements of Government Code Section 8855 and related regulations.

10.5 Arbitrage Rebate Compliance and Reporting – The use and investment of bond proceeds must be monitored to ensure compliance with arbitrage restrictions. Existing regulations require that issuers calculate rebate liabilities related to any bond issues, with rebates paid to the Federal Government every five years and as otherwise required by applicable provisions of the Internal Revenue Code and regulations. The Finance Director shall contract with a specialist to ensure that proceeds and investments are tracked in a manner that facilitates accurate complete calculations, and if necessary timely rebate payments.

10.6 Compliance with Other Bond Covenants – In addition to financial disclosure and arbitrage, the City is also responsible for verifying compliance with all undertakings, covenants, and agreements of each bond issuance on an ongoing basis. This typically includes ensuring:

- Annual appropriation of revenues to meet debt service payments;
- Levy and collection of taxes/fees, where applicable;
- Timely transfer of debt service payments to the trustee
- Compliance with insurance requirements
- Compliance with rate covenants
- Post-issuance procedures established in the tax certificate for any tax-exempt debt

10.7 Retention – A copy of all relevant documents and records will be maintained by the Finance Department for the term of the bonds (including refunding bonds, if any) plus 10 years. Relevant documents and records will include sufficient documentation to support the requirements relating to the tax-exempt status.

10.8 Investor Relations – While the City shall post its annual financial report as well as other financial reports on the City’s website, this information is intended for the citizens of Napa. Information that the City intends to reach the investing public, including bondholders, rating analysts, investment advisors, or any other members of the investment community shall be filed on the EMMA system.

10.9 Additional requirements for financial statements – It is the City’s policy to hire an auditing firm that has the technical skills and resources to properly perform an annual audit of the City’s financial statements. More

specifically, the firm shall be a recognized expert in the accounting rules applicable to the City and shall have the resources necessary to review the City's financial statements on a timely basis.

Section 11: Training

The Finance Director shall ensure that the members of the City staff involved in the initial or continuing disclosure process and the City Council are properly trained to understand and perform their responsibilities.

The Finance Director shall arrange for disclosure training sessions conducted by the City's disclosure counsel. Such training sessions shall include education on the Initial Disclosure and Continuing Disclosure sections of this Debt Management Policy, the City's disclosure obligations under applicable federal and state securities laws and the disclosure responsibilities and potential liabilities of members of the City's staff and members of the City Council. Such training sessions may be conducted using a recorded presentation or, in appropriate circumstances, may be accomplished in writing.

Section 12: Glossary

Ad Valorem Tax: A tax calculated "according to the value" of property. Such a tax is based on the assessed valuation of real property and a valuation of tangible personal property.

Amortization: The gradual reduction in principal of an outstanding debt according to a specific repayment schedule, which details specific dates and repayment amounts on those dates.

Arbitrage: The gain that may be obtained by borrowing funds at a lower (often tax-exempt) rate and investing the proceeds at higher (often taxable) rates. The ability to earn arbitrage by issuing tax-exempt securities is regulated by the Internal Revenue Code of 1986, as amended.

Assessed Valuation: The value of property for purposes of property taxation in accordance with California law.

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

Bond Anticipation Notes: Short-term notes issued usually for capital projects and paid from the proceeds of the issuance of long-term bonds. Provide interim financing in anticipation of bond issuance.

Bond Counsel: A qualified attorney retained by the issuer to give a legal opinion concerning the validity of securities. The bond counsel's opinion usually addresses the subject of tax exemption. Bond counsel may prepare or review and advise the issuer regarding authorizing resolutions, trust indentures and litigation.

Bond Insurance: A type of credit enhancement whereby an insurance company indemnifies an investor against default by the issuer. In the event of failure by the issuer to pay principal and interest in full and on time, investors may call upon the insurance company to do so. Once issued, the municipal bond insurance policy is generally irrevocable. The insurance company receives its premium when the policy is issued and this premium is typically paid out of the bond issue.

Call Option: The right to redeem a bond prior to its stated maturity, either on a given date or continuously. The call option is also referred to as the optional redemption provision. Often a call premium is added to the call option as compensation to the holders of the earliest bonds called.

Capital Appreciation Bond: A municipal security on which the investment return on an initial principal amount is reinvested at a stated compounded rate until maturity, at which time the investor receives a single payment representing both the initial principal amount and the total investment return.

CDIAC: California Debt and Investment Advisory Commission (“CDIAC”)

Certificates of Participation: A financial instrument representing a proportionate interest in payments such as lease payments by one party (such as a city acting as a lessee) to another party (often a trustee).

Competitive Sale: A sale of bonds in which an underwriter or syndicate of underwriters submit sealed bids to purchase the bonds. Bids are awarded on a true interest cost basis (TIC), providing that other bidding requirements are satisfied. Competitive sales are recommended for simple financings with a strong underlying credit rating. This type of sale is an alternative to a Negotiated Sale.

Continuing Disclosure: The requirement by the Securities and Exchange Commission for most issuers of municipal debt to post current financial information and notices of enumerated events on the MSRB’s EMMA website for access by the general marketplace.

Credit Rating Agency: A company that rates the relative credit quality of a bond issue and assigns a letter rating. These rating agencies include Moody’s Investors Service, Standard & Poor’s, and Fitch Ratings.

Debt Limit: The maximum amount of debt that is legally permitted by applicable charter, constitution, or statutes.

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

Default: The failure to pay principal or interest in full or on time and, in some cases, the failure to comply with non-payment obligations after notice and the opportunity to cure.

Derivative: A financial instrument which derives its own value from the value of another instrument, usually an underlying asset such as a stock, bond, or an underlying reference such as an interest rate index.

Disclosure Counsel: A qualified attorney retained to provide advice on issuer disclosure obligations, to prepare the official statement and to prepare the continuing disclosure undertaking.

Discount: The difference between a bond’s par value and the price for which it is sold when the latter is less than par. Also known as “underwriter discount”, this is the fee paid to the underwriter for its banking and bond marketing services.

Enterprise Activity: revenue generating project or business. The project often provides funds necessary to pay debt service on securities issued to finance the facility. Common examples include water and solid waste enterprises.

Financing Team: The working group of City staff and outside consultants appointed by the Finance Director to collectively provide advice to the Finance Director and City Manager related to debt issuance; and to individually take actions within the respective area of expertise of each member as necessary to complete a debt issuance.

General Obligation (GO) Bond: A bond secured by an unlimited property tax pledge. Requires a two-thirds vote by the electorate. GO bonds usually achieve lower rates of interest than other financing instruments since they are considered to be a lower risk.

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

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

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

Lease Revenue Bonds: Bonds that are secured by an obligation of one party to make annual lease payments to another.

Maturity Date: The date upon which a specified amount of debt principal or bonds matures, or becomes due and payable by the issuer of the debt.

Municipal Advisor: A consultant who provides the issuer with advice on the structure of the bond issue, timing, terms and related matters for a new bond issue.

Municipal Securities Rulemaking Board (MSRB): A self-regulating organization established on September 5, 1975 upon the appointment of a 15-member board by the Securities and Exchange Agreement. The MSRB, comprised of representatives from investment banking firms, dealer bank representatives, and public representatives, is entrusted with the responsibility of writing rules of conduct for the municipal securities market. The MSRB hosts the EMMA website, which hosts information posted by issuers under their continuing disclosure undertakings.

Negotiated Sale: A sale of securities in which the terms of the sale are determined through negotiation between the issuer and the purchaser, typically an underwriter, without competitive bidding. The negotiated sales process provides control over the financing structure and issuance timing. Negotiated sales are recommended for a first-time sale by a particular issuer (a new credit), unusual financing terms, period of market volatility and weaker credit quality. A thorough evaluation, usually with the assistance of the City's Municipal Advisor, of the proposed bond's credit characteristics in conjunction with market conditions will be performed to ensure reasonable final pricing and underwriting spread.

Official Statement (Prospectus): A document published by the issuer in connection with a primary offering of securities that discloses material information on a new security issue including the purposes of the issue, how the securities will be repaid, and the financial, economic and social characteristics of the security for the bonds. Investors may use this information to evaluate the credit quality of the securities.

Par Value: The face value or principal amount of a security.

Pension Obligation Bonds: Financing instruments used to pay some or all of the unfunded pension liability of a pension plan.

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

Present Value: The value of a future amount or stream of revenues or expenditures.

Pricing Consultant: The Pricing Consultant provides a fairness letter to the City or its agent regarding the pricing of a new issue of municipal securities.

Private Placement: A bond issue that is structured specifically for one purchaser. Private placements are typically carried out when extraneous circumstances preclude public offerings. A private placement is considered to be a negotiated sale.

Redemption: Depending on an issue's call provisions, an issuer may on certain dates and at certain premiums, redeem or call specific outstanding maturities, in whole or in part. When a bond or certificate is redeemed, the issuer is required to pay the portion of the par amount to be redeemed, the accrued interest to the call date, plus any premium required by the issue's call provisions.

Refunding: A procedure whereby an issuer refinances an outstanding debt issue by issuing a new debt issue.

Rule 15c2-12: Rule adopted by the Securities and Exchange Commission setting forth certain obligations of (i) underwriters to receive, review and disseminate official statements prepared by issuers of most primary offering of municipal securities, (ii) underwriters to obtain continuing disclosure agreements from issuers and other obligated persons to provide ongoing annual financial information on a continuing basis, and (iii) broker-dealers to have access to such continuing disclosure in order to make recommendations of municipal securities in the secondary market.

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

Revenue Bond: Revenue bonds are payable from identified sources of revenue, and do not permit the bondholders to compel a jurisdiction to pay debt service from any other source. Pledged revenues often are derived from the operation of an enterprise.

Secondary Market: The market in which bonds are sold after their initial sale in the new issue market.

Serial Bonds: Bonds of an issue that mature in consecutive years or other intervals and are not subject to mandatory sinking fund provisions.

Special Tax Bonds: Bonds issued to fund eligible improvements and paid with special taxes levied in a community facilities district formed under the Mello-Roos Community Facilities Act of 1982, as amended, or other applicable law.

State Revolving Funds: The State Revolving Fund (SRF) loan is a low interest loan program for the construction of water infrastructure projects.

Tax Allocation Bonds: Historically, tax allocation bonds referred to bonds issued under the Community Redevelopment Law to fund eligible capital facilities located within a redevelopment project area. However, as a result of the passage of AB X1 26, the Napa Redevelopment Agency has been dissolved and the successor agency's obligations are limited to performing certain enforceable obligations. The California Legislature has enacted a number of laws that establish alternative tax increment financing mechanisms, and tax allocation bonds may be issued under these laws in the future.

Tax and Revenue Anticipation Notes (TRANS): Short term notes issued in anticipation of receiving tax receipts and revenues within a fiscal year. TRANS allow the municipality to manage the period of cash shortfalls resulting from a mismatch between timing of revenues and timing of expenditures.

Term Bonds: Bonds that come due in a single maturity but where the issuer may agree to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity and for payment at maturity.

True Interest Cost (TIC): Under this method of computing the interest expense to the issuer of bonds, true interest cost is defined as the rate 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. Interest is assumed to be compounded semi-annually. TIC computations produce a figure slightly different from the net interest cost (NIC) method because TIC considers the time value of money while NIC does not.

Trustee: A bank retained by the issuer as custodian of bond proceeds and official representative of bondholders. The trustee ensures compliance with the indenture. In many cases, the trustee also acts as paying agent and is responsible for transmitting payments of interest and principal to the bondholders.

Underwriter: A broker-dealer that purchases a new issue of municipal securities from the issuer for resale in a primary offering. The bonds may be purchased either through a negotiated sale with the issuer or through a competitive sale.

Yield: The net rate of return, as a percentage, received by an investor on an investment. Yield calculations on a fixed income investment, such as a bond issue, take purchase price and coupon into account when calculating yield to maturity.