



Office of the City Manager

01

Worksession Item

WORKSESSION

March 14, 2017

To: Honorable Mayor and Members of the City Council

From: *DWR* Dee Williams-Ridley, City Manager

Submitted by: Henry Oyekanmi, Director, Finance

Subject: City Debt Policy Training

INTRODUCTION

The purpose of this report is to provide disclosure training to the City Council as part of the Debt Management and Disclosure Policy. This training session will include education on the Disclosure Procedures, the City's disclosure obligations under applicable federal and state securities laws and the disclosure responsibilities and potential liabilities of members of the City Council.

CURRENT SITUATION AND ITS EFFECTS

The City of Berkeley does not currently have a Debt Management and Disclosure Policy. Adopting a Debt Management and Disclosure Policy will bring the City into compliance with Senate Bill 2029 ("SB 1029").

This Policy is intended to comply with Government Code Section 8855(i), effective January 1, 2017. Per SB 1029 the policies set forth in this Debt Management Policy (the "Policy") have been developed to provide clear and comprehensive guidelines for the issuance and financial management of the debt portfolio of the City of Berkeley 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 policy confirms the commitment of the City Council, management, staff and other decision makers to adhere to sound financial management practices, including full and timely repayment of borrowings, achieving the lowest possible cost of capital within prudent risk parameters.

Purpose and Goals:

The purpose of the Policy is to provide a functional tool for debt management and capital planning, as well as to enhance the Cities ability to manage its debt obligations and lease financings (collectively referred to as "debt" in this Policy) in a conservative and prudent manner.

BACKGROUND

Senate Bill 1029 (“SB 1029”), which was signed by the California Governor on September 12, 2016, requires California public agencies that issue debt to adopt debt management policies that meet certain criteria.

Securities and Exchange Commission (the “SEC”) recommends that issuers of municipal securities adopt policies and procedures to govern compliance and implement training with respect to their initial disclosure and continuing disclosure undertakings.

In response to SB 1029 and the SEC’s recommendations and in order to adhere to sound financial management practices, the City of Berkeley, the Berkeley Joint Powers Financing Authority and the Successor Agency for the former Berkeley Redevelopment Agency find it desirable to adopt and maintain a debt management and disclosure policy.

ENVIRONMENTAL SUSTAINABILITY

The Debt Management and Disclosure Policy provides an opportunities to make environmentally responsible Debt Management goals.

POSSIBLE FUTURE ACTION

These disclosure training sessions conducted by the City’s disclosure counsel will be a continuous training sessions going forward. The Disclosure Coordinator will schedule these training sessions as needed.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

There are no fiscal impacts from approving the Debt Management and Disclosure Policy.

CONTACT PERSON

Henry Oyekanmi, Director of Finance, 981-7300

Attachments:

- 1: Debt Management and Disclosure Policy

**CITY OF BERKELEY
DEBT MANAGEMENT AND DISCLOSURE POLICY
JANUARY 2017**

I. INTRODUCTION

The policies set forth in this Debt Management Policy (the “Policy”) have been developed to provide clear and comprehensive guidelines for the issuance and financial management of the debt portfolio of the City of Berkeley 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 policy confirms the commitment of the City Council, management and staff and other decision makers to adhere to sound financial management practices, including full and timely repayment of borrowings, achieving the lowest possible cost of capital within prudent risk parameters. This Policy is not intended to be so restrictive that it interferes with the City’s legitimate efforts to prudently provide public services and facilities.

This Policy is intended to comply with Government Code Section 8855(i), effective January 1, 2017.

Purpose and Goals:

The purpose of the Policy is to provide a functional tool for debt management and capital planning, as well as to enhance the Cities ability to manage its debt obligations and lease financings (collectively referred to as “debt” in this Policy) in a conservative and prudent manner. In following this Policy, the Cities shall pursue the following goals:

- The City shall endeavor to attain the best possible credit rating for each debt issue in order to reduce interest costs while preserving financial flexibility and meeting capital funding requirements.
- The City shall take all practical precautions and proactive measures to avoid any financial decision that will negatively impact current credit ratings on existing or future debt issues.
- The City shall remain mindful of its statutory debt limit in relation to assessed value growth and the tax burden needed to meet long-term capital requirements.
- The City shall consider market conditions and City cash flows when timing the issuance of debt.
- The City shall determine the amortization (maturity) schedule which will best fit with the overall debt structure of the City at the time the new debt is issued.
- The City shall match the term of the issue to the useful lives of assets whenever practicable and economic, while considering repair and replacement costs of those assets to be incurred in the future.
- The City shall, when planning for the issuance of new debt, consider the impact of such new debt on overlapping debt of local, state and other governments that overlap with the City.
- The City shall, when issuing debt, assess financial alternatives to include new and innovative financing approaches, including whenever feasible categorical grants, revolving loans or other State/federal aid, so as to minimize the contribution from the City’s General Fund.

- The City shall, when planning for the sizing and timing of debt issuance, consider its ability to expend the funds obtained in a timely, efficient and economical manner.

II. SCOPE

The guidelines established by this policy will govern the issuance and management of all debt funded for short and long term capital financing needs and cash flow needs. The Finance Department recognizes that changes in the capital markets and other unforeseen circumstances may require exception to this Policy, for which approval from the City Council will be necessary for implementation. The Policy may be amended by the City Council as it deems appropriate from time to time in the prudent management of the debt of the City. Any approval of debt by the City Council that is not consistent with this Policy shall constitute a waiver of this Policy.

III. DELEGATION OF AUTHORITY

Pursuant to the provisions of Sections 37209 and 40805.5 of the Government Code of the State of California, the Finance Director (Director of Finance) shall be the head of the finance department and shall be responsible for all of the financial affairs of the City. This Policy grants the Finance Director the authority to select the financing team, coordinate the administration and issuance of debt, communicate with the rating agencies, as well as to fulfill all the pre-issuance and post-issuance disclosure information.

The Finance Director or designee will select various Financing Team Members. Below is a brief description of the main Financing Team, along with their functions.

1. Municipal Advisor

- Assists with capital planning and long term planning
- Coordinates the financing and debt issuance process
- Helps evaluate underwriter proposals and provides financial analysis and recommendations
- Assists with the securing of other professional services and other members of the financing team
- Monitors and evaluates market conditions for opportunities to issue debt at low interest rates
- Works with the City and Underwriter to develop investor outreach and market approach
- Manages competitive bid process
- Ensures negotiated prices are “fair” and reasonable in the marketplace.

2. Bond Counsel

- Prepare an approving legal opinion
- Provide expert and objective legal opinion and advice
- Prepare and review documents necessary to authorize, issue sale and delivery of the bonds as well as coordination of the authorization and execution of closing documents
- Review legal issues relating to the structure of the bond issue
- Prepare election proceedings or pursue validation proceedings if necessary
- Review or prepare those sections of the official statement that relate to the Bonds, financing documents, bond counsel opinion and tax exemption
- Assist the City in presenting information to bond rating organizations and credit enhancements providers relating to legal issues affecting the issuance of the Bonds
- Review or prepare the Notice of Sale of Bond Purchase Contract for the Bonds and review or draft the continuing disclosure undertaking of the City
- Post-issuance advice for bond covenant compliance, when requested

3. Disclosure Counsel

- Assists the City with preparing a disclosure document in connection with a public offering of debt.
- Provide expert and objective legal opinion and advice on federal securities laws
- Post-issuance advice for bond covenant compliance, when requested

4. Underwriter

- Provide the City with market knowledge
- Assist with credit analysis and preparation
- Premarketing of the Bonds
- Pricing and Sale of Bonds
- Trading of the Bonds

5. Trustee/Fiscal Agent/Paying Agent

- Establishes and holds the funds and account relating to the bond issue
- Maintains the list of names and addresses of all registered owners of the bonds and recordings of transfers and exchanges of the bonds
- Acts as the authenticating agent
- Acts as the paying agent
- Protects the interests of the bondholders by monitoring compliance with covenants and acts on behalf of the bondholders in the event of default.
- As the escrow agent holds the investments acquired with the proceeds of an advance refunding and uses those funds for payments on those investments to pay debt service of the refunding bonds
- As a dissemination agent, acts on behalf of the issuer or other obligated person to disseminate annual reports and event notices to repositories under SEC Rule 15c12-12

IV. TYPES OF DEBT

The following are types of debt the City could issue:

1. New Money Debt

New money debt is debt issued to finance the cost of capital improvement project or other large or extraordinary costs as approved by the City Council.

2. Refunding Debt

Refunding debt is debt issued to refinance (refund) previously issued outstanding debt. The City may issue refunding debt to refinance the principal and of and interest on outstanding bonds or other debt to achieve debt service savings, restructure schedule debt service or convert from variable to fixed interest rate, change or modify the source(s) of payment and security for the refunded debt, or modify covenants otherwise binding upon the City. Refunding may be issued on either on a current or advance basis under federal tax law.

3. Revenue Debt

Revenue debt is generally issued for enterprise funds that are financially self-sustaining without the use of general fund revenue sources and therefore rely on the revenues collected by the enterprise fund to repay the debt.

4. Land-Secured Debt

Examples of land-secured debt include special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, as amended, and limited obligation bonds issued under

applicable assessment statutes. Land-secured debt is payable from special taxes or assessments that the City will levy on the secured property tax roll.

5. General Obligation (GO) Bonds

In California, GO Bonds require a supermajority voter approval. Most GO bonds are backed by the issuer's ability to level ad valorem tax in amounts sufficient to meet debt service.

6. Lease Financings

Lease revenue bonds, certificates of participation (also known as "COPs") and lease-purchase transactions are examples of lease financings. Lease financings are typically used when the City wishes to pay for debt with its general fund.

7. Bond Anticipation Notes, Grant Anticipation Notes

This type of debt is issued to finance a project in anticipation of other funding sources becoming available at a later time.

8. Tax and Revenue Anticipation Notes (TRAN)

A TRAN is issued when the City's anticipated operating revenues are not available when the City's operating expenses need to be paid, which is a common operational challenge for California cities given the irregular distribution of sales tax and property tax revenues.

9. Tax Increment Financings

Tax increment financing may be used to the extent available under California law.

10. Conduit Financings

The City may agree to provide conduit financing for specific public purposes, such as financings for affordable rental housing and qualified 501c3 organizations. In a conduit financing, the debt is typically repaid with non-City revenues.

V. DEBT TERM

The City Council recognizes that new debt obligations may impact the long-term affordability of all outstanding debt and any future planned debt, as well as budgetary impacts associated with the maintenance and operating costs of debt-financed facilities.

Term of Debt – Debt will be structured for the shortest period possible, consistent with a fair allocation of costs to current and future beneficiaries or users. Debt shall not be issued for a term that exceeds the useful life of the debt-financed asset.

Debt Repayment – Typically the City desires level debt service payments over the term of the debt. However, the cost of capital, financial risk, current economic conditions, future financial flexibility, credit rating and available cash flow will be evaluated to determine the most appropriate method of debt amortization for each debt issue. Notwithstanding the above, back loading of debt service will be evaluated as the circumstances dictate. Back loading occurs when debt service payments are lower in the initial years of a debt term and higher toward the later years of a debt term.

VI. DEBT ISSUANCE

The City has the capacity to issue long and short-term debt and to refund any outstanding debt. The following section details the purposes for debt issuance, the method of sale for such debt and the practices for obtaining professional assistance in the debt issuance process.

Long-term debt – Long-term debt may be used to finance the acquisition or improvement of land, infrastructure, facilities or equipment for which it is appropriate to spread the costs of such over more than one budget year. Long-term debt may be used to fund capitalized interest, cost of issuance, required reserves and any other financing related costs that may be legally capitalized. Long-term debt should not be used to fund City operating costs.

Short-term debt – Short-term debt will be considered as an interim source of funding in anticipation of long-term debt. Short-term may be issued for any purpose for which long-term debt may be issued, including capitalized interest and financing-related costs. Short-term debt is also appropriate to address legitimate short-term cash flow requirements during a given fiscal year to fund the operating costs of the City to provide necessary public services. The City will not engage in short-term borrowing solely for the purpose of generating investment income.

Refunding – Refunding opportunities will be identified by periodic review of outstanding debt obligations. Refunding will be considered when there is a net economic benefit from the refunding. Non-economic refundings may be undertaken to achieve City objectives relating to changes in covenants, call provisions, operational flexibility, tax status, issuer or other non-economic factors related to the debt.

Method of sale – Debt is typically issued under either a competitive or a negotiated sale, but also may be sold in a private placement. The City shall have the flexibility to determine which method of sale is appropriate for each debt issuance. Determination of the appropriate method of sale will rest collectively with the City Manager, Finance Director and City Attorney. There are a number of market factors that will affect the success of a debt offering and each should be carefully considered before selecting a method of sale. These factors include, but are not limited to, 1) market perception of the City’s credit quality, 2) interest rate volatility, 3) size of the proposed issue, 4) complexity of the proposed issue and 5) competition with other issuers for investor interest (bond supply).

Pooled Financing – The City may also consider the use of pooled financing as a method of accessing the capital markets. Use of pooled financing will be evaluated collectively by the City Manager, Finance Director and City Attorney on a case-by-case basis.

VII. DEBT CAPACITY

The City is subject to debt capacity limit for its general obligation bonds: 15% of assessed value.

For non-general obligation bonds, determining what the City’s debt capacity is at any point in time is difficult. It depends on a number of factors including market conditions, amount of undesignated fund balance in the General Fund, fluctuating cash balances, financial policies, management and staff experience, new or existing revenues to support additional debt and availability of financial consultants to assist in the financial analysis. In the development of this Policy, the goal is to serve as a framework within which the City can evaluate each potential debt issuance.

VIII. PERFORMANCE STANDARDS

The City of Berkeley strives to maintain “investment grade” standings in the municipal market. Below is an Investment Grade Table of the three (3) major rating agencies:

Moody’s Investors Service Inc.	Standard & Poor’s Corporation	Fitch Investors Service Inc.	Definition
Aaa	AAA	AAA	Highest rating assigned Very

			Strong security
Aa	AA	AA	Very strong security, Only slightly below the best rating
A	A	A	Average security but more subject to adverse financial and economic developments
Baa	BBB	BBB	Adequate capacity to secure debt. Adverse developments may affect ability to meet debt service requirements.

Note: Mood's use the designation "1" to indicate a greater strength with the "Baa" "A" and "Aa" categories. Standard and Poor's and Fitch use "+" and "-" to indicate relative strength or weakness in the "BBB", "A", and "AA" categories.

IX. RELATIONSHIP OF DEBT TO OTHER CITY POLICIES

A. Relationship of Debt to Capital Improvement Program and Budget

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

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

B. Policy Goals Related to Planning Goals and Objectives

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

X. ON-GOING DEBT ADMINISTRATION

The Finance Director will regularly review the City's outstanding obligations, particularly in declining interest rate environment. When rates begin to approach levels at which refunding is cost effective, the City shall select a financing team to begin preparations for a refunding issue.

Use of Debt Proceeds

The Finance Director and other appropriate City personnel shall:

- Monitor the use of debt proceeds and the use of debt-financed assets (e.g., facilities, furnishings or equipment) throughout the term of the debt (and in some cases beyond the term of the debt) to ensure compliance with covenants and restrictions set forth in applicable City resolutions and Tax Certificates;

- Maintain records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of debt;
- Employ appropriate internal controls and redundancy of review to ensure all approved contracts and expenditures are consistent with the terms of the bond sale and ballot language by following the City's established work flow procedures;
- Consult with Bond Counsel and other professional expert advisers in the review of any contracts or arrangements involving use of debt-financed facilities to ensure compliance with all covenants and restrictions set forth in applicable City resolutions and Tax Certificates;
- Maintain records for any contracts or arrangements involving the use of debt-financed facilities as might be necessary or appropriate to document compliance with all covenants and restrictions set forth in applicable City resolutions and Tax Certificates; and
- Meet at least annually with personnel responsible for debt-financed assets to identify and discuss any existing or planned use of debt-financed assets to ensure that those uses are consistent with all covenants and restrictions set forth in applicable City resolutions and Tax Certificates.

All relevant records and contracts shall be maintained as described below.

Record Keeping Requirements

Unless otherwise specified in applicable City resolutions or Tax Certificates, the City shall maintain the following documents for the term of each issue of debt (including refunding debt, if any) plus at least three years:

- A copy of the debt closing transcript(s) and other relevant documentation delivered to the City at or in connection with closing of the issue of debt;
- A copy of all material documents relating to capital expenditures financed by debt proceeds, including (without limitation) construction contracts, purchase orders, invoices, trustee requisitions and payment records, as well as documents relating to costs reimbursed with debt proceeds and records identifying the assets or portion of assets that are financed or refinanced with debt proceeds;
- Copies of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee statements.

Arbitrage Rebate

The use and investment of tax-exempt debt proceeds must be monitored to ensure compliance with arbitrage restrictions. Existing regulation require that issuers calculate rebate liabilities related to tax-exempt debt issues, with rebates paid to the Federal Government every five years and 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.

XI. Disclosure Policy

Purpose

These disclosure policies and procedures are intended to (a) ensure that the City complies with federal securities laws as they relate to initial disclosure, (b) ensure that the City's Continuing Disclosure Documents (as defined below) are accurate and comply with all applicable federal and state securities laws, and (c) promote best practices regarding the preparation of the City's initial disclosure documents and Continuing Disclosure Documents.

Definitions

1. "Continuing Disclosure Documents" means (a) annual continuing disclosure reports filed with the MSRB and (b) event notices and any other filings with the MSRB.
2. "EMMA" means the MSRB's Electronic Municipal Market Access website.
3. "MSRB" means the Municipal Securities Rulemaking Board.
4. "Official Statements" means preliminary and final official statements, private placement memoranda and remarketing memoranda relating to the City's securities, together with any supplements, for which a continuing disclosure obligation is required.

Disclosure Working Group

Composition. The Disclosure Working Group consists of the Finance Director, who is designated as the Chief Disclosure Officer, the Accounting Manager, who is the Disclosure Coordinator and other internal City staff that are pertinent to the disclosures. The Finance Director has general oversight over the entire continuing disclosure process. Membership in the Disclosure Working Group shall be augmented by the Finance Director and consist of persons relevant to the disclosure process.

The Disclosure Working Group shall consult with external professionals (such as those with expertise as bond counsel, tax counsel, disclosure counsel and municipal advisor) or other interested parties as the Disclosure Working Group determine is advisable related to continuing disclosure issues and practices. Meetings of the Disclosure Working Group may be held in person or via conference call.

The Disclosure Working Group is an internal working group of City staff.

Responsibilities. The Disclosure Working Group is responsible for:

- a. Reviewing and approving all Preliminary and Final Official Statements before such documents are posted;
- b. Reviewing and approving all continuing disclosure undertakings as contained in the City's Preliminary and Final Official Statements before such documents are posted;
- c. Reviewing annually the City's status and compliance with continuing disclosure undertakings including filings of Annual Reports and Notices of Listed Events;
- d. Reviewing any items referred to the Disclosure Working Group; and
- e. Evaluating the effectiveness of this Disclosure Policy.

Official Statements. The Disclosure Coordinator of the City shall review any Official Statement prepared in connection with any debt issuance by the City in order to ensure there are no

misstatements or omissions of material information in any sections that contain descriptions of information prepared by the City.

In connection with its review of the Official Statement, the Disclosure Coordinator shall consult with third parties, including outside professionals assisting the City, and all members of City staff, to the extent that the Disclosure Coordinator concludes they should be consulted so that the Official Statement will include all “material” information (as defined for purposes of federal securities law).

As part of the review process, the Disclosure Coordinator shall submit all Official Statements to the Disclosure Working Group. The Disclosure Working Group, after determining that it meets the requirements of federal tax law, shall instruct the Disclosure Coordinator to send the Official Statement to the City Council for approval. The cover letter used by the Disclosure Coordinator to submit the Official Statements shall be in substantially the form of Attachment 1.

The approval of an Official Statement by the City Council shall be docketed as a new business matter and shall not be approved as a consent item. The City Council shall undertake such review as deemed necessary by the City Council, following consultation with the Disclosure Coordinator, to fulfill the City Council’s responsibilities under applicable federal and state securities laws. In this regard, the Disclosure Coordinator shall consult with the City’s disclosure counsel to the extent the Disclosure Coordinator considers appropriate.

Continuing Disclosure Filings

Overview of Continuing Disclosure Filings

1. Under its continuing disclosure undertakings it has entered into in connection with its debt offerings, the City is required to file annual reports (“Annual Reports”) with the MSRB’s EMMA system. Such Annual Reports are required to include the City’s audited financial statements and certain updated financial and operating information (or may incorporate by reference publicly-available documents that contain such information).
2. In accordance with each continuing disclosure undertaking, if audited financial statements are not available by the date the Annual Report is required to be filed, unaudited financial statements are to be included in such Annual Report and audited financial statements shall be filed when such statements become available. If unaudited financial statements are filed, the cover page may include a disclaimer stating that such financial statements are unaudited and are subject to adjustments and modifications, the result of which will be presented in the audited financial statements. In addition, in accordance with the applicable continuing disclosure undertaking, the City shall file or cause to be filed a notice of any failure to provide its Annual Report on or before the date specified in a Continuing Disclosure Document.
3. The City is also required under its continuing disclosure undertakings to file notices of certain events on EMMA (“Notices of Listed Events”).

The CAFR will serve as the repository for statements of indebtedness. The fiscal year debt statements in each CAFR certify the amount of (i) new debt issued, (ii) debt outstanding, (iii) debt authorized but not issued (iv) assessed valuation and (v) outstanding debt expressed as a percentage of assessed valuation, each as of the end of the fiscal year to which the CAFR relates.

The City shall prepare or cause to be prepared appropriate disclosures as required by Securities and Exchange Commission Rule 15c2-12, the federal government, the State of California, rating agencies, bond insurers, underwriters, bond counsel, investors, taxpayers, and other persons or entities entitled

to disclosure to ensure compliance with applicable laws and regulations and agreements to provide ongoing disclosure.

Public Statements Intended to Reach Financial Markets

Whenever the City makes statements or releases information relating to its finances to the public that are reasonably expected to reach investors and the trading markets, the City is obligated to ensure that such statements and information are complete, true, and accurate in all material respects.

Training

The Disclosure Coordinator 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 Disclosure Coordinator shall arrange for disclosure training sessions conducted by the City's disclosure counsel. Such training sessions shall include education on these Disclosure Procedures, 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.

XII. DEBT MANAGEMENT AND DISCLOSURE POLICY REVIEW

The Finance Director shall review this Debt Management and Disclosure Policy at a minimum of every five (5) years or as required by law and recommend any changes to the City Manager and City Council.

Attachment 1

Form of Staff Report

To: Members of the City Council

From:

Date: _____

This Staff Report relates to the proposed issuance of _____ (the “Obligations”) by the City. The City Council is asked to approve issuance of the Obligations and all related documents. The near-final versions of these documents are attached.

The attached Preliminary Official Statement has been reviewed and approved for transmittal to the City Council by the City’s financing team. The distribution of the Preliminary Official Statement by the City is subject to federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require the Preliminary Official Statement to include all facts that would be material to an investor in the Obligations. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the Obligations. If the City Council concludes that the Preliminary Official Statement includes all facts that would be material to an investor in the Obligations, it must adopt a resolution that authorizes staff to execute a certificate to the effect that the Preliminary Official Statement has been “deemed final.”

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 Preliminary Official Statement. 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 indicated 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 Obligations, 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 facts are adequately disclosed in the Preliminary Official Statement. In the Release, the SEC indicated that the steps that a member of the City Council could take include becoming familiar with the Preliminary Official Statement and questioning staff and consultants about the disclosure of such facts.

Set forth below is a summary of the financing, including cross-references to specific sections of the Preliminary Official Statement.

Section 1. *Purpose of Financing.*

Section 2. *Documents for Approval; Security for the Obligations.*

Section 3. *Risks Relating to Repayment and Tax-Exempt Status of the Obligations.*

Section 4. *Requested Approvals.*

