CAPITAL FINANCING AND DEBT MANAGEMENT POLICY

Approved by Resolution No. 17-037 March 14, 2017

EXHIBIT A

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CITY OF DIXON
CAPITAL FINANCING & DEBT MANAGEMENT POLICY

I. Introduction

To maintain the highest quality capital financing and debt management program, the City of Dixon has prepared the guidelines and policies set forth in this document, referred to hereafter as the "Debt Management Policy." The Debt Management Policy is intended to guide decisions related to debt supported by the City's General Fund Enterprise Funds and the Successor Agency.

To the extent that items have not been contemplated for inclusion in the Debt Management Policy, additions and revisions can be made by approval of the City Council.

Note: All references to "DCM" refers to the Deputy City Manager – Administrative Services or their designee responsible for managing and overseeing the debt functions of the City.

Goals and Objectives

The Debt Management Policy formally establishes parameters for issuing debt and managing a debt portfolio which encompasses the City's specific capital improvement needs and its ability to repay financial obligations utilizing a long range financial planning approach. Specifically, the policies outlined in this document are intended to guide the City in the following:

- Evaluating critical debt issuance options.
- Promoting sound financial management that utilizes long range financial planning.
- Providing accurate and timely information on financial conditions.
- Maintaining appropriate capital assets for present and future needs.
- Protecting and enhancing the City's credit rating.
- Ensuring the legal and prudent use of the City's bonding authority through an effective system of financial security and internal controls.
- Use debt financing where appropriate to match projected revenue streams with facility needs.
- Debt issuance for a capital project will not be considered unless such project has been incorporated into the City's adopted Capital Improvement Program or as otherwise approved by the City Council.

II. Approach to Financing Long-term Debt

A sound debt management program integrates pay-as-you-go project financing with projects financed through the issuance of long-term debt. The City's Capital Improvement Program utilizes this combined approach to fund the City's capital projects. Therefore, it is important to integrate the City's Debt Management Policy with both the City's long range financial plan and the capital improvement program. Debt issuance for capital projects should not be considered unless such issuance has been incorporated into the capital improvement program. The City will utilize debt financing as an acceptable approach to fund long-term improvements, and thus ensure that existing and future users pay their fair share.

The City's Debt Management Policy promotes the use of debt only in those cases where public policy, equity, and economic efficiency favor debt over cash (i.e., pay-as-you-go) financing. When considering how to fund capital improvements, the City will use the following criteria to evaluate whether to fund the improvement project on a pay-as-you-go basis versus the use of long-term debt financing:

Factors Favoring Pay-As-You-Go Financing

- Current revenues and adequate fund balances are available such that project phasing can be accomplished.
- Useful life of the capital asset is 10 years or less.
- Existing debt levels might have an adverse impact on the City's credit rating.
- Market conditions are unstable or present difficulties in marketing the improvement project.

Factors Favoring Long-term Financing

- Revenues available for debt service are sufficient and reliable such that long-term financings can be marketed with an investment grade credit rating.
- The project securing the financing is of the type which will support an investment grade credit rating.
- Market conditions present favorable interest rates.
- The project is required to meet or relieve capacity needs and current resources are insufficient or unavailable.
- The life of the project or capital asset to be financed is 10 years or longer.

Notwithstanding the above considerations, the City may consider the use of long-term debt in special circumstances for projects other than capital projects to better manage its assets and liabilities over time, including Tax and Revenue Anticipation Notes and/or Pension Obligation Bonds, with the latter being considered only after careful policy evaluation by the City.

III. Debt Management and Capacity

- **Use of the General Fund as a Back-up Guarantor**. The City's General Fund may be used to provide back-up liquidity to improve the credit rating of a self-supported debt issue (i.e., an obligation that is expected to be paid through specific revenues), but only if the General Fund is not exposed to significant risk of loss of assets or impairment of liquidity. The evaluation of risk should consider the following factors:

  – Volatility and collection risk of the revenue source identified for repayment of the debt.

  – The likelihood of General Fund reimbursement within one year for any payments it might potentially need to make in its role as back-up guarantor.

  The City will not use General Fund financial support for assessment or Mello-Roos obligations.

- **General Purpose Debt Capacity.** The City will carefully monitor its levels of general-purpose debt. In evaluating debt capacity, general purpose supported debt service will not be evaluated on a case-by-case basis.

- **Enterprise Fund Debt Capacity.** The City will set enterprise fund rates at levels needed to fully cover debt service and coverage requirements, operations and maintenance, administration and capital improvement costs. The ability to afford new debt for enterprise operations will be evaluated as an integral part of the City's rate review and setting process.

- **Inter-fund Loans among City Funds.** Inter-fund loans among City funds will be considered to finance high priority needs on a case-by-case basis, only when the fund making the loan would not be negatively impacted. Inter-fund borrowing may also be used when it would reduce costs of interest, avoid debt issuance, and/or reduce Finance burdens. Inter-fund loans require a written and signed loan agreement between the two City funds that includes a repayment schedule with a minimum of interest paid at the pooled cash investment rate for the term of the loan. The repayment term of inter-fund loans is limited to five years for new loans; this provision does not apply to interfund loans that may be currently outstanding.

The City will issue debt only in the case where there is an identified source of repayment.

IV. Financing Criteria

When the City determines that the use of debt is appropriate, the following criteria will be utilized to evaluate the type of debt to be issued.

- **Long-Term Debt**. The City may issue long-term debt (e.g., general obligation bonds, revenue bonds, lease obligations, or variable rate bonds) when an appropriate assessment of the need and priority of the capital improvement project has been undertaken, current resources are insufficient to finance the project, and when debt financing is the optimal structure given the City's financial outlook in relation to the long range financial plan. Proceeds can be used to fund the planning, design, land acquisition, construction, equipment or other costs as permitted by law. The proceeds derived from long-term borrowing will not be used to finance current operations or normal maintenance. Long-term debt will be structured such that the obligations do not exceed the expected useful life of the respective projects. - ***Subordinate Debt*** (e.g., subordinate or junior lien bonds) may be issued in instances in which statutory or indenture restrictions prevent additional series of parity of senior lien bonds.

- **Short-Term Debt*.*** Defined as borrowing that spans less than one year, short-term borrowing may be utilized for the temporary funding of operational cash flow deficits or anticipated revenues (defined as an assured source with the anticipated amount based on conservative estimates). The City will determine and utilize the least costly method for short-term borrowing. The City may issue short-term debt when there is a defined repayment source or amortization of principal, subject to the following policies:

  – ***Bond Anticipation Notes (BANs)*** may be issued instead of capitalizing interest to reduce the debt service during the construction period of a project or facility.

  – ***Tax and Revenue Anticipation Notes (TRANs)*** should be issued only to meet projected cash flow needs consistent with a finding by Bond Counsel that the sizing of the issue fully conforms to IRS requirements and limitations.

  – ***Commercial Paper*** should only be considered as an alternative when taking into account not only the expected interest to be paid but the cost of the letter of credit and remarketing fees to be incurred to maintain the financing.

  – ***Lines of Credit*** should only be considered as an alternative to other short-term borrowing options. The lines of credit shall be structured to limit concerns as to the Internal Revenue Code.

- **Variable Rate Debt*.*** To maintain a predictable debt service burden, the City may give preference to debt that carries a fixed interest rate. However, the City may consider variable rate debt in certain instances, such as:

  – ***High Interest Rate Environment.*** Current interest rates are above historic average trends.

  – ***Variable Revenue Stream.*** The revenue stream for repayment is variable, and is anticipated to move in the same direction as market-generated variable interest rates, or the dedication of revenues allows capacity for variability.

– ***Adequate Safeguards Against Risk.*** Financing structure and budgetary safeguards are in place to prevent adverse impacts from interest rate shifts; such structures could include, but are not limited to, interest rate swaps, interest rate caps and the matching of assets and liabilities.

– ***Variable Rate Debt Capacity.*** Consistent with rating agency guidelines, the percentage of variable rate debt outstanding (not including debt which has been converted to synthetic fixed rate debt through a matching swap agreement) shall be evaluated on a case-by-case basis.

- **Tax-Exempt Lease Financed Debt*.*** Intermediate and long term tax exempt debt financing can also be undertaken for the acquisition of, for example, equipment, information technology enhancements, vehicles or HVAC and other renewal and replacement systems improvements. The parameters for the City to enter into a tax-exempt lease financing agreement is as follows:

  – A minimum threshold of $100,000 up to a maximum of $5,000,000 can be tax-exempt lease financed. Special consideration is negotiable for exceptions to be made on a case-by-case basis.

  – Identified repayment revenue resource must be a continuous funding source. Grant awards cannot be identified as the repayment source but can be utilized as a down payment to reduce the amount of the proposed tax-exempt lease.

  – Selection of both the projects and tax-exempt financing method must undergo review and approval by the Administrative Services Department.

  – The terms of the tax-exempt lease financing may not exceed the useful life of the capital asset.

V. Terms and Conditions of Bonds / Direct Placements

The City shall establish all terms and conditions relating to the issuance of bonds / direct placements, and will control, manage, and invest all bond proceeds. Unless otherwise authorized by the City, the following shall serve as bond requirements:

1. **Term.** All capital improvements financed through the issuance of debt will be financed for a period not to exceed the useful life of the improvements.

2. **Capitalized Interest.** Certain types of financings such as certificates of participation and other lease-secured financings may require the use of capitalized interest from the issuance date until the City has beneficial use and occupancy of the financed project. Interest shall not be funded (capitalized) beyond a period of three years, or a shorter period if further restricted by statute. The City may require that capitalized interest on the initial series of bonds be funded from the proceeds of the bonds. As an alternative to capitalizing interest during the acquisition or construction of a project, the City may lease and lease-back an existing capital asset to secure the financing.

3. **Debt Service Structure. Market conditions at the time of sale will inform the City on its decision regarding debt service structure.** Debt issuance shall be planned to achieve relatively rapid repayment of debt while still

matching debt service to the useful life of facilities. The City shall avoid the use of bullet or balloon maturities except in those instances where these maturities serve to levelize existing debt service.

4. **Call Provisions.** In general, the City's securities will include a call feature, which is no later than 10 years from the date of delivery of the bonds. The City will avoid the sale of non-callable bonds absent careful evaluation by the City of the value of the call option. Every effort shall be made to minimize call premiums which shall not exceed 3% unless required by statute.

5. **Original Issue Discount and Premiums.** An original issue discount or premium will be permitted only if the City determines that such discounts or premiums result in a lower true interest cost on the bonds and that their use will not adversely affect the project identified by the bond documents.

6. **Deep Discount Bonds.** Deep discount bonds may provide a lower cost of borrowing in certain markets. The City will carefully consider their value and effect on any future refinancing as a result of the lower-than-market coupon.

7. **Multiple Series.** In instances where multiple series of bonds are to be issued, the City shall make a final determination as to which facilities are of the highest priority and those facilities which will be financed first, pursuant to funding availability and the proposed timing of facilities development.

VI. Credit Enhancements

The City will consider the use of credit enhancement on a case-by-case basis, evaluating the economic benefit versus cost for each case. Only when a clearly demonstrable savings can be shown should a method of enhancement be considered. The City will consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancement.

- **Bond Insurance.** The City shall have the authority to purchase bond insurance when such purchase is deemed prudent and advantageous. The predominant determination shall be based on such insurance being less costly than the present value of the difference in the interest on insured bonds versus uninsured bonds.

  1. **Provider Selection.** The DCM, with the assistance of the financing team, will solicit quotes for bond insurance (or cause such quotes to be solicited) from interested providers or in the case of a competitive sale submit an application for pre-qualification of insurance. In a negotiated sale, the DCM shall have the authority to select a provider whose bid is the most cost effective and whose terms and conditions governing the guarantee are satisfactory to the City.

- **Debt Service Reserves.** When required, a reserve fund equal to the least of (1) ten percent (10%) of the original principal amount of the bonds, (2) one hundred percent (100%) of the maximum annual debt service, and (3) one hundred and twenty-five percent (125%) of average annual debt service, (the "Reserve Requirement") shall be funded from the proceeds of each series of bonds, subject to federal tax regulations and in accordance with the requirements of credit enhancement providers and/or rating agencies. This "three prong" test will also apply to a common reserve fund (parity reserve) calculated on all parity bonds within a series. Policies governing the investment of debt service reserves and bond proceeds can be found in both the bond documents and the City's Investment Policy.

The City may purchase reserve equivalents (i.e., the use of a reserve fund surety or letter of credit) when such purchase is deemed prudent and advantageous. Such equivalents shall be evaluated in comparison to cash funding of reserves on a net present value basis, taking into account projected interest earnings on a cash funded reserve.

- **Letters of Credit.** The City may enter into a letter-of-credit ("LOC") agreement when such an agreement is deemed prudent and advantageous. The DCM shall prepare (or cause to be prepared) and distribute to qualified financial institutions as described in the subsection "Selection Criteria" below, a request for qualifications which includes terms and conditions that are acceptable to the City.
  - **Provider Selection.** Only those financial institutions with long-term ratings greater than or equal to that of the City, and short-term ratings of VMIG 1, A-1, or F1, by Moody's Investors Service, Standard & Poor's and Fitch Ratings, respectively, may be solicited.
  - **Selection Criteria.** The selection of providers will be based on responses to a City-issued RFQ; criteria will include, but not be limited to, the following:
    - Ratings at least equal to or better than the financing issues' underlying credit rating.
    - Evidence of ratings (including the market outlook of the LOC).
    - Trading value relative to other financial institutions.
    - Terms and conditions acceptable to the City; the City may provide a term sheet along with the request for qualifications to which the financial institution may make modifications.
    - Representative list of clients for whom the bank has provided credit facilities.
    - Fees, specifically, cost of LOC, draws, financial institution counsel and other Finance charges.

VII. Refinancing Outstanding Debt

The DCM shall have the responsibility to analyze outstanding bond issues for refunding issues that may be presented by underwriting and/or Municipal Advisor firms. The DCM will consider the following issues when analyzing possible refunding opportunities:

- **Debt Service Savings.** The City establishes a guideline net present value savings threshold goal of five percent (5%) of the refunded bond principal amount. The net present value savings will be net of all costs related to the refinancing. The City will evaluate each refunding candidate on a case-by-case basis. In evaluating such refundings and the appropriateness of a 3% or higher refunding goal, the City will take into account whether the refunding will be current or advance, and if the latter, the period of time before the call date and the efficiency of the refunding escrow.

- **Restructuring.** The City will refund debt when in its best interest to do so. Refunding will include restructuring to meet unanticipated revenue expectations, achieve cost savings, mitigate irregular debt service payments, release reserve funds, or remove unduly restrictive bond covenants.

- **Term of Refunding Issues.** The City may refund bonds within the term of the originally issued debt. However, the City may consider maturity extension, when necessary to achieve a desired outcome, provided that such extension is legally permissible. The City may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financed facility and the concept of inter-generational equity should guide this decision.

- **Escrow Structuring.** The City shall utilize the least costly securities available in structuring refunding escrows. The City will examine the viability of an economic versus legal defeasance on a net present value basis. In the case where open market securities are purchased, the City shall procure a minimum of three (3) competitive bids from approved broker-dealers. Such securities must be more cost effective than State and Local Government Obligations (SLGS), and that the price paid for the securities must be reasonable within Federal guidelines. Under no circumstances shall the Underwriter or Municipal Advisor of a particular project sell escrow securities to the City from its own account.

- **Arbitrage.** The City shall take all necessary steps to optimize escrows and to avoid negative arbitrage on any refunding.

VIII. Methods of Issuance

The City will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation.

- **Competitive Sale -** In a competitive sale, the City's bonds shall be awarded to the bidder providing the lowest true interest cost as long as the bid adheres to the requirements set forth in the official Notice of Sale.

- **Negotiated Sale / Direct Placement -** The City recognizes that some securities are best sold through negotiation. In its consideration of a negotiated sale, the City shall assess the following circumstances:

  – Bonds issued as variable rate demand obligations.

  – A complex structure which may require a strong pre-marketing effort.

  – Size of the issue which may limit the number of potential bidders.

  – Market volatility is such that the City would be better served by flexibility in timing its sale in changing interest rate environments.

  – Other criteria to consider: the absence of investment grade rating of the bonds; timing considerations beyond "market volatility" (e.g., refundings),

IX. Underwriter / Placement Agent Selection

It is within the City's best interest to be in a position to be able to react quickly and issue debt based on favorable market conditions. Therefore, on a case-by-case basis, firms may be selected to act as sole or senior or co-manager. The selection of an Underwriter will be recommended by the DCM for approval by the City Council.

- **Underwriter / Placement Agent Responsibilities.** The Underwriter will be expected to assist in the development of a sound financial plan for the capital facility or infrastructure that is planned to be financed as necessary, and to underwrite the bonds to finance the project. Specific services, although not all inclusive, are listed below. Note that if the terms of the specific services differ from those described in a formal contract, the services as described in the contract shall prevail.

  – Meet with City staff, developers, members of the financial team and others as required, to become familiar with the Project.

  – Determine, with City staff assistance, the capital requirements for the Project.

  – Determine and recommend the means of financing which is the most cost effective in regard to net interest cost, annual debt service, market timing and other matters which affect the cost of the financing.

  – Either independently, or in conjunction with City's Municipal Advisor, recommend alternative credit structures for the financing.

  – Prepare a written analysis to be presented to the City of the recommended structure, pricing and sizing of the issue, based on the then current market conditions. Modify said analysis to meet the changing conditions of the financial markets.

  – Prepare a time schedule for the financing, with each critical component or task identified with the operative date of occurrence. Modify such schedule as needed. The schedule will be circulated to all participants in the financing including City staff, Municipal Advisor, the developer, if any, Bond Counsel, Disclosure Counsel, and the City Attorney's Office.

  – Recommend and institute, with the City's concurrence, a marketing plan for selling the financial instruments. Such plan may include distributing preliminary official statements to all individuals, broker-dealers and institutional investors targeting those most likely to purchase the instruments, and following up with telephone calls and other forms of communication.

  – Coordinate the financing with the Municipal Advisor, Bond Counsel and Disclosure Counsel regarding the legal requirements of the financing and the preparation and structure of documents, including but not limited to, the preliminary and final official statements.

– Conduct a pre-pricing conference call with City staff the day before the sale. The purpose is to discuss with staff coupon interest rates, prices and yields for the financial instruments to be issued, and to review the comparable sales provided by the Underwriter for recently conducted sales of like issues.

– Purchase the bonds, subject to pertinent resolutions, the official statement, and all other necessary documents with all approvals and proceedings governing such debt obligations having been determined by Bond Counsel, the City, the Municipal Advisor and Underwriter to be satisfactory in all respects for financing purposes.

– Obtain CUSIP Numbers for the bonds, if required.

– Prepare a final pricing report which includes an analysis of the interest rates obtained compared to other comparable financings in the market at that time.

Underwriter / Placement Agent Compensation. See Exhibit 'A'

X. Bond Counsel Selection

The issuance of debt by the City will include a written opinion by legal counsel affirming that the City is authorized to issue the proposed debt, that the City has met all constitutional and statutory requirements necessary for issuance, and a determination of the proposed debt's federal income tax status. The approving opinion and other documents relating to the issuance of debt will be prepared by counsel with extensive experience in public finance and tax issues.

It is within the City's best interest to be in a position to be able to react quickly and issue debt based on favorable market conditions. Therefore, on a case-by-case basis, firms may be selected to work on a particular financing. The selection of Bond Counsel will be determined by the DCM in consultation with the City Attorney's Office.

- **Bond Counsel Responsibilities**. The services to be provided by Bond Counsel will include, but not be limited to, those listed below. Note that if the terms of the specific services differ from those described in a formal contract, the services as described in the contract shall prevail.

– Provide an objective legal opinion with respect to the authorization and issuance of local agency debt obligations and whether interest paid is tax-exempt under federal and/or state laws and regulations.

– Research applicable law; preparing documents; consulting with City staff and the financial team; reviewing proceedings; and performing additional duties as necessary to render the opinion.

– Provide continuing legal advice regarding any actions necessary to ensure that interest will continue to be tax-exempt.

– Prepare legal documents for the financing, including closing documents and transcripts.

– Participate, when requested, in activities associated with rating agency reviews.

– Offer continuing legal advice, as needed, on issues related to the sale and the trustee administration of City's obligations.

– In cases where a separate Disclosure Counsel is not retained by the City, Bond Counsel will provide the City with a "10b-5 Opinion" with respect to the preliminary and final official statements.

– Provide a legal opinion with respect to the authorization and issuance of the debt obligations and whether interest paid is tax-exempt.

– Attend City Council meetings when the debt obligation for which counsel is providing services is being considered. Participate in staff meetings, including post issuance reviews, as requested, relating to the issuance of debt.

- **Bond Counsel Compensation**. See Exhibit ‘A’

XI. Consultants

- **Municipal Advisor.** The City may select a Municipal Advisor (or advisors) to assist in its debt issuance and debt administration processes. Selection of the City’s Municipal Advisor(s) shall be based on, but not limited to, the following criteria:

– Experience in providing consulting services to complex issuers.
– Knowledge and experience in structuring and analyzing complex issues.
– Experience and reputation of assigned personnel.
– Fees and expenses.

- **Municipal Advisor Services.** Municipal Advisor services provided to the City shall include, but shall not be limited to those listed below. Note that if the terms of the specific services differ from those described in a formal contract, the services as described in the contract prevail.

– Take primary responsibility for review of the quantitative analysis of the cash flows provided by the Underwriter. Prepare reports matching all calculations for bond sizing, debt service schedules, savings calculations, bond calls, escrow calculations and cash flows on the project. Prepare any other cash flow schedules as requested by the City.

– Provide all cash flow schedules in a reasonable and timely fashion to all Finance Team members including but not limited to City staff, Bond Counsel, Underwriter, and Disclosure Counsel. In addition, make all schedules, in presentation form, available to rating agencies and bond insurers as requested by the City.

– Prepare the detailed costs of issuance, review the gross spread (Underwriter's discount) and review all funds available as contributions to any refinancing.

– Assist the City in the design and implementation of a credit strategy, including preparation of presentations to credit rating agencies and bond insurers or other credit providers, development of requests for proposals for municipal bond insurance, surety bonds and/or letters of credit, and the analysis of the economic efficiency of any proposed credit enhancement.

– In the case of a competitive bond sale, advise the City on the appropriate terms and parameters for the Notice of Sale and market timing for the receipt of bids.

– Be available at reasonable times for consultation to render advice regarding all financial aspects of the project as may be requested.

– Attend meetings and make presentations as requested. Prepare graphs, charts, etc. for staff presentations as needed.

– Review and comment on all legal documents including, but not limited to, the preliminary and final official statements, resolutions, loan agreements, indentures or fiscal agent agreements.

– Conduct pre-pricing, pricing and post-pricing conference calls with City Staff and Underwriter reviewing market conditions, comparable sales, fees related to the refinancing and final sale results.

– Provide City staff with recent comparable sales from similar projects including information related to that project and the final sale coupons and yields.

– Be responsible and readily available to City staff (or designee) for the handling and answering of any and all questions, inquiries, and correspondence from interested persons referred to the Municipal Advisor by City staff (or designee) regarding the services provided by the Municipal Advisor.

- **Municipal Advisor Compensation**. See Exhibit 'A'

- **Disclosure Counsel**. In any sale of City debt in which legal counsel is required to represent the City, the DCM shall select a Disclosure Counsel from qualified firms in consultation with the City Attorney's office. The scope of duties will include, but not be limited to, the following:

– Prepare the preliminary and final official statements.

– Provide a "10b-5 Opinion" with respect to the preliminary and final official statements.

– Prepare all documents and materials necessary to comply with all applicable "continuing disclosure" requirements for the transaction.

– Review, as necessary, applicable law and pertinent documents.

– Attend City Council meetings when the debt obligation for which counsel is providing services is being considered. Participate in staff meetings, including post issuance reviews, as requested, relating to the issuance of debt.

- **Disclosure Counsel Compensation**. See Exhibit ‘A’

XII. Market and Investor Relations

- **Rating Agencies and Investors.** The DCM shall be responsible for maintaining the City’s relationships with Moody’s Investors Service, Standard & Poor’s and Fitch Ratings. The City may, from time to time, choose to deal with only one or two of these agencies as circumstances dictate. In addition to general communication, the DCM shall: (1) communicate with credit analysts at least once each fiscal year, and (2) prior to each competitive or negotiated sale, offer conference calls and meetings with agency analysts in connection with any planned sale.

- **Continuing Disclosure.** The City shall remain in compliance with Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders.

- **Rebate Reporting.** The use of bond proceeds and their investments must be monitored to ensure compliance with arbitrage restrictions as contained in the Federal Tax Code. Existing regulations require that issuers calculate annual rebates due for interest earnings on bond proceeds in excess of the interest rate on the bonds if any, with rebate, if due, paid every five years. Therefore, the DCM shall ensure that proceeds and investments are tracked in a manner which facilitates accurate calculation, that calculations are completed, and rebates, if any, are made in a timely manner.

- **Conduit Financings.** The applicant must go through any Joint Powers Authority (JPA) of which the City is a member. Conduits, or Tax and Equity Fiscal Responsibility Act of 1982 (TEFRA), are (non-city) debt, therefore the City does not act as an issuer for conduit debt. The sole purpose of the JPA is to finance projects that promote economic development through the issuance of bonds.

  Before bonds are issued, the federal tax laws under the TEFRA and Section 147 (f) of the Internal Revenue Code require the JPA member (City of Dixon) to 1) conduct a public hearing and 2) approve the JPA’s issuance of indebtedness.

XIII. Post Issuance Compliance

External Advisors / Documentation - The DCM and other appropriate City personnel shall consult with Bond Counsel and other legal counsel and advisors, as needed, throughout the Bond issuance process to identify requirements and to establish procedures necessary or appropriate so that the Bonds will continue to qualify for the appropriate tax status. These requirements and procedures shall be documented in a City resolution(s), Tax Certificate(s) and/or other documents finalized at or before issuance of the Bonds. These requirements/procedures shall include future compliance with applicable arbitrage rebate requirements and all other applicable post-issuance requirements of federal tax law throughout the term of the Bonds.

The DCM and other appropriate City personnel also shall consult with Bond Counsel and other legal counsel and advisors, as needed, following issuance of the Bonds to ensure that all applicable post-issuance requirements in fact are met. This shall include, without limitation, consultation in connection with future contracts with respect to the use of bond-financed assets and future contracts with respect to the use of output or throughput of bond-financed assets.

Whenever necessary or appropriate, the City shall engage expert advisors (each a "Rebate Service Provider") to assist in the calculation of arbitrage rebate payable in respect of the investment of Bond proceeds.

Role of the City as Bond Issuer - Unless otherwise provided by City resolutions, unexpended Bond proceeds shall be held by the City and the investment of Bond proceeds shall be managed by the DCM. The DCM shall maintain records and shall prepare regular, periodic statements to the City regarding the investments and transactions involving Bond proceeds.

The DCM will continue to have oversight with matching invoices with the expenditure of bond proceeds as part of the internal control procedures implemented to ensure that the proposed debt issuance has been used for the intended purpose.

If a City resolution provides for Bond proceeds to be administered by a trustee, the trustee shall provide regular, periodic (monthly) statements regarding the investments and transactions involving Bond proceeds.

Arbitrage Rebate and Yield - Unless a Tax Certificate documents that Bond Counsel has advised that arbitrage rebate will not be applicable to an issue of Bonds:

- the City shall engage the services of a Rebate Service Provider, and the City or the Bond trustee shall deliver periodic statements concerning the investment of Bond proceeds to the Rebate Service Provider on a prompt basis;

- upon request, the DCM and other appropriate City personnel shall provide to the Rebate Service Provider additional documents and information reasonably requested by the Rebate Service Provider;

- the DCM and other appropriate City personnel shall monitor efforts of the Rebate Service Provider and assure payment of required rebate amounts, if any, no later than 60 days after each 5-year anniversary of the issue date of the Bonds, and no later than 60 days after the last Bond of each issue is redeemed; and

- during the construction period of each capital project financed in whole or in part by Bonds, the DCM and other appropriate City personnel shall monitor the investment and expenditure of Bond proceeds and shall consult with the Rebate Service Provider to determine compliance with any applicable exceptions from the arbitrage rebate requirements during each 6-month spending period up to 6 months, 18 months or 24 months, as applicable, following the issue date of the Bonds.

The City shall retain copies of all arbitrage reports and trustee statements as described below under "Record Keeping Requirements."

Use of Bond Proceeds - The DCM and other appropriate City personnel shall:

- monitor the use of Bond proceeds, the use of Bond-financed assets (e.g., facilities, furnishings or equipment) and the use of output or throughput of Bond-financed assets throughout the term of the Bonds (and in some cases beyond the term of the Bonds) 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 Bonds;

- consult with Bond Counsel and other professional expert advisers in the review of any contracts or arrangements involving use of Bond-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 Bond-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;

- meet at least annually with personnel responsible for Bond-financed assets to identify and discuss any existing or planned use of Bond-financed, assets or output or throughput of Bond-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 Bonds (including refunding Bonds, if any) plus at least three years:

- a copy of the Bond closing transcript(s) and other relevant documentation delivered to the City at or in connection with closing of the issue of Bonds;

- a copy of all material documents relating to capital expenditures financed or refinanced by Bond proceeds, including (without limitation) construction contracts, purchase orders, invoices, trustee requisitions and payment records, as well as documents relating to costs reimbursed with Bond proceeds and records identifying the assets or portion of assets that are financed or refinanced with Bond proceeds;

- a copy of all contracts and arrangements involving private use of Bond-financed assets or for the private use of output or throughput of Bond-financed assets; and

- copies of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee statements.

XIV. Glossary for definition of terms www.investinginbonds.com

EXHIBIT ‘A’

COMPENSATION SCHEDULE

Underwriter / Placement Agent Compensation - The fee paid to the Underwriter / Placement Agent shall be negotiated on a case-by-case basis. The Underwriter / Placement Agent shall be compensated based on the following terms.

- The fee for each financing will be negotiated based on the complexity and size of the specific transaction.
- Reimbursement for actual out-of-pocket expenses shall not exceed 10% of the fee. The qualified firm must submit invoices for such expenses satisfactory to the City prior to reimbursement of any out-of-pocket expense.
- All fees are contingent upon the successful completion of the City’s financing.
- Underwriter / Placement Agent compensation will be set in collaboration with the Municipal Advisor and will be based on the prevailing market for fees paid for in comparable issue types, complexities and size.
- The Underwriter's Discount allowed on a bond issue shall include management fees, takedown, Underwriter's risk, and expenses of sale, including but not limited to, Underwriter’s counsel, travel and out-of-pocket expenses, computer and modeling, charges from the California Debt Advisory Commission (CDIAC), assignment of CUSIPS, day loan charges, and other usual and customary costs incurred by the Underwriter.

Bond Counsel Compensation. The fee paid to Bond Counsel shall be negotiated on a case-by-case basis. The Bond Counsel shall be compensated based on the following terms.

- The fee for each financing will be negotiated based on the complexity and size of the specific transaction.
- Reimbursement for actual out-of-pocket expenses shall not exceed 10% of the fee. The qualified firm must submit invoices for such expenses satisfactory to the City prior to reimbursement of any out-of-pocket expense.
- All fees are contingent upon the successful completion of the City’s financing.
- Fees may be negotiated by the DCM outside of the above schedule to accommodate unusual or special circumstances

Municipal Advisor Compensation. Municipal Advisor compensation shall be negotiated on a case-by-case basis. The Municipal Advisor shall be compensated based on the following terms.

- The fee for each financing will be negotiated based on the complexity and size of the specific transaction.
- Reimbursement for actual out-of-pocket expenses shall not exceed 10% of the fee. The qualified firm must submit invoices for such expenses satisfactory to the City prior to reimbursement of any out-of-pocket expense.
- All fees are contingent upon the successful completion of the City's financing unless otherwise covered under a separate agreement for hourly projects.
- Fees may be negotiated by the DCM to accommodate unusual or special circumstances

- **Disclosure Counsel Compensation**. The fee paid to Disclosure Counsel shall be negotiated on a case-by-case basis not to exceed the fees paid to the Bond Counsel. The Disclosure Counsel shall be compensated based on the following terms.
    - The fee for each financing will be negotiated based on the complexity and size of the specific transaction.
    - Reimbursement for actual out-of-pocket expenses shall not exceed 10% of the fee. The qualified firm must submit invoices for such expenses satisfactory to the City prior to reimbursement of any out-of-pocket expense.
    - All fees are contingent upon the successful completion of the City's financing.