

DEBT MANAGEMENT POLICY

A. PURPOSE

The purpose of this Debt Management Policy (“Policy”) is to establish guidelines and parameters for the effective governance, management and administration of the debt of the City of Newport Beach (“City”). This Policy is intended to comply with California Government Code Section 8855(i), and any successor statute, and shall govern all debt which is contemplated or incurred by the City.

The City hereby recognizes that a fiscally prudent Policy is required to:

1. Maintain the City’s sound financial position;
2. Ensure the City has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses;
3. Protect the City’s creditworthiness;
4. Ensure that all debt is structured to protect both current and future taxpayers, ratepayers and constituents of the City; and
5. Ensure that the City’s debt is consistent with the City’s planning goals, objectives, capital improvement program, and/or budget.

B. BACKGROUND

The City is committed to fiscal sustainability by employing long-term financial planning efforts, maintaining appropriate reserves levels and employing prudent practices in governance, management, budget administration and financial reporting.

Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. A disciplined, thoughtful approach to debt management includes policies that provide guidelines for the City to manage its debt consistent with available and reasonably anticipated resources. Therefore, the objective of this Policy is to provide written guidelines concerning the amount and type of debt which may be issued by the City and the ongoing management of debt obligations.

This Policy is intended to make all relevant information readily available to decision-makers and the public to improve the quality of decisions, provide justification for the structure of debt issuances, identify policy goals and demonstrate a commitment to long-term financial planning, including a multi-year capital plan. Adherence to a Policy signals to rating agencies and the capital markets that the City is well managed and able to meet its obligations in a timely manner.

C. RELATIONSHIP OF DEBT TO CAPITAL IMPROVEMENT PROGRAM AND BUDGET

The City has established long-term plans for replacing aging physical infrastructure. The City strives to maintain a level funding plan that will minimize the peaks and valleys in General Fund support levels and allows the funding of projects over time. The City utilizes debt obligations only after giving due consideration to all available funding sources, including but not limited to available cash reserves in the City's Facilities Financial Plan ("FFP"), Harbor and Beaches Master Plan ("HBMP"), other strategic savings programs, available current revenues, potential future revenue sources, existing and potential grants, and all other financial sources legally available to be used for such purposes. When and if deemed an appropriate alternative, the City may issue debt for the purposes stated in this Policy to implement policy decisions incorporated in the FFP, HBMP, and/or Capital Improvement Program.

The City shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues. To the extent practicable in the circumstances, the City will avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear. Rather, those readily anticipated infrastructure and facilities repairs and replacements should be funded through reserve policies.

The City shall coordinate 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.

D. POLICY GOALS RELATED TO PLANNING GOALS AND OBJECTIVES

The City is committed to long-term financial planning, maintaining appropriate reserve levels, and employing prudent practices in governance, management, and budget administration. The City intends to issue debt only for the purposes stated in this Policy and to implement policy decisions incorporated in the FFP, HBMP, and/or Capital Improvement Program. Adoption of this Policy will help ensure that debt is issued and managed in a manner that protects the public interest.

It is a policy goal of the City to protect taxpayers, ratepayers (if applicable) and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

The City shall comply with applicable state and federal law as it pertains to debt and the procedures for levying and imposing related taxes, assessments, rates, or charges.

E. CONDITIONS AND PURPOSES OF DEBT ISSUANCE

1. Acceptable Conditions for the Use of Debt

The City believes that prudent amounts of debt can be an effective means of financing major infrastructure and capital project needs of the City. Debt will be considered to finance such projects if:

- a) It meets the City's goal of distributing costs of the asset over its useful life so that benefits more closely match costs for both current and future residents.
- b) It is the most cost-effective funding means available to the City, taking into account cash flow needs, maintenance of prudent reserves and other funding alternatives.
- c) It is fiscally prudent and meets the guidelines of this Policy, the City's Municipal Code, and the City's Charter. Any consideration of debt financing shall consider financial alternatives, including pay-as-you-go funding, proceeds derived from development or redevelopment of existing land and capital assets owned by the City, and use of existing or future cash reserves, or any combination thereof.

2. Purposes for Which Debt May Be Issued

The City may consider financing for the acquisition, substantial refurbishment, replacement or expansion of physical assets, including land improvements. The primary purpose of debt would be to finance one or more of the following:

- a) Acquisition and or improvement of land, right-of-way, leaseholds or long-term easements.
- b) Acquisition of equipment or a capital asset with a useful life of three (3) or more years.
- c) Construction or reconstruction of a facility.
- d) Refunding, refinancing, or restructuring debt, subject to refunding objectives and parameters discussed herein.
- e) Although not the primary purpose of the financing effort, project reimbursable costs that include project planning, design, engineering and other

preconstruction efforts; project-associated furniture, fixtures and equipment; capitalized interest, original issuer's discount, underwriter's discount and other costs of issuance.

- f) Interim or cash flow financing, such as tax, revenue or bond anticipation notes.

3. Prohibited Uses of Debt

Prohibited uses of debt include the following:

- a) Financing of operating costs except for anticipation notes with a term of less than one year.
- b) Debt issuance used to address budgetary deficits.
- c) Debt issued for periods exceeding the useful life of the asset or projects to be financed.

4. Approval Process for the Issuance of Debt

Any issuance of debt, either through a public sale of securities, private placement or direct purchase is subject to the formal approval of the City Council as a non-consent item on a City Council agenda. As part of the City Council approval, a formal resolution authorizing the issuance of a specific form of debt shall be required as part of the authorizing documents. The resolution shall include, at a minimum, the following:

- a) The specific project(s) for which the debt is being incurred;
- b) The maximum principal amount to be borrowed;
- c) The maximum term, which will be no greater than the useful life of the project(s), equipment, or capital asset, whichever is applicable and longer;
- d) The maximum interest rate or true interest cost;
- e) The maximum annual debt service;
- f) Call Provisions, including specifically identifying any deviation from Section F(9) below;
- g) Estimated Costs of Issuance;
- h) Maximum Underwriter's Discount; and
- i) A list of all consultants hired for the issuance including, at a minimum, bond counsel, disclosure counsel, municipal advisor and underwriter(s).

In addition to the authorizing resolution, the City Council shall be provided copies of the various financing documents including indentures, purchase agreements and preliminary official statements. For any sale of securities, the City shall be required to retain an Independent Registered Municipal Advisor ("IRMA") to serve as the City's fiduciary on every sale. The IRMA will provide independent analysis of all financing

scenarios considered with a specific recommendation to the City Council supported by the analysis. The written recommendation of the IRMA shall be provided to City Council as an attachment to the City's Staff Report.

F. STRUCTURE OF DEBT (Fixed Rate)

1. **Term of Debt** - Unless financially beneficial to do otherwise, debt shall be structured with the goal of spreading payments for the project, equipment, or capital asset over its useful life so that benefits more closely match costs for both current and future residents. The duration of borrowings by the City shall not exceed the useful life of the project, equipment, or capital asset it finances. The standard term of long-term borrowing is typically fifteen to thirty years.
2. **Pace of Debt Payment** - Accelerated repayment schedules reduce debt burden faster and reduce total borrowing costs. Debt repayment shall be amortized through the most financially advantageous debt structure and, if applicable, to match the City's projected cash flow to the anticipated debt service payments, to the extent possible. "Backloading" of debt service should be considered only when one or more of the following occur:
 - a) Natural disasters or extraordinary or unanticipated external factors make payments on the debt in early years impractical.
 - b) The benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present.
 - c) Such structuring is beneficial to the City's aggregate overall debt payment schedule or achieves measurable interest savings.
 - d) Such structuring will allow debt service to more closely match project revenues during the early years of the project's operation.
3. **Level Payment** - To the extent practical, bonds will be amortized on a level repayment basis, and revenue bonds will be amortized on a level repayment basis considering the forecasted available pledged revenues to achieve the lowest rates possible. Bond repayments should not increase on an annual basis in excess of two percent (2%) without a dedicated and supporting revenue-funding stream.
4. **Serial Bonds, Term Bonds, and Capital Appreciation Bonds** - For each issuance, the City shall select serial bonds or term bonds, or both. On the occasions where circumstances warrant, Capital Appreciation Bonds ("CAB") may be used. The decision to use term, serial, or CAB bonds shall be based on market conditions.

5. **Reserve Funds** - The City shall strive to maintain a fund balance in the FFP or other designated reserve at a level equal to or greater than the maximum annual debt service of existing obligations.
6. **Capitalized Interest** - The City shall seek to avoid the use of capitalized interest, which defers debt service by increasing the size of a debt issue to fund interest. On occasion, capitalized interest may be considered to the extent that the City wishes to defer the beginning of debt service until project completion, to match project revenues with debt service.
7. **Discount Bonds** - While discount and deep discount bonds may reduce the interest cost of the bonds below that of par or premium bonds, they should only be used in limited situations as they reduce the potential for future savings from refunding of the bonds.
8. **Premium Bonds** - Premium bonds may provide for a lower overall interest cost compared to par or discount bonds. An analysis should be prepared comparing the yield to maturity and yield to call of the premium bond structure compared to alternative couponing. This comparison should be done on maturity-by-maturity basis. The value of the call option of the higher coupon with respect to the future ability to refund should be reviewed as well.
9. **Call Provisions** - In general, the City's debt obligations should include an optional redemption feature at par that arises not later than ten (10) years after the issuance of the debt. However, if market conditions exist where a call option at par arising later than ten (10) years after issuance of debt, or a "make-whole" call would benefit the City, the authorizing bond resolution must explicitly provide staff the authorization to negotiate these options. The City Council should set parameters that guide staff's negotiations. Alternatively, since decisions on pricing of debt and financial consequences of call or make whole provisions can arise in a very compressed timeframe with the potential for unanticipated market conditions, in connection with approving an authorizing bond resolution, the City Council should designate a date for pricing and call and notice a special or regular meeting of the City Council for that date in the event the alternatives available to the staff are outside the parameters set by the City Council. It is the City's intent to maximize prepayment flexibility on all bond issues. Shorter call provisions may be considered on a case-by-case basis.

G. USE OF ALTERNATIVE DEBT INSTRUMENTS

The City recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, risks, and costs. All potential funding sources shall be reviewed by management within the context of this Policy and the overall portfolio to ensure that any financial product or structure is consistent with the City's objectives. Regardless of what financing structure(s) is utilized, due-diligence review must be performed for each transaction, including the quantification of potential risks and benefits, and analysis of the impact on City creditworthiness and debt affordability and capacity. Because fixed rate debt transfers most financial risks to bondholders, fixed rate debt should be considered the preferred method of financing long-term capital needs. Therefore, while permitted for consideration, the following instruments are disfavored:

1. Variable Rate Debt

Variable rate debt affords the City the potential to achieve a lower cost debt depending on market conditions. However, the City shall seek to limit the use of variable-rate debt due to the potential risks of such instruments.

a) Purpose

The City may consider the use of variable rate debt for the purposes of:

- i. Reducing the costs of debt issues.
- ii. Increasing flexibility for accelerating principal repayment and amortization (often variable rate debt may be prepaid without penalty).
- iii. Enhancing the management of assets and liabilities (matching short-term "priced debt" with the City's short-term investments).
- iv. Diversifying interest rate exposure.
- v. As a short-term source of construction or acquisition financing, (i.e., commercial paper, to reduce interest cost).

b) Considerations and Limitations on Variable-Rate Debt

The City may consider the use of all alternative structures and modes of variable rate debt to the extent permissible under State law and shall make determinations among different types of modes of variable-rate debt based on cost, benefit, and risk factors. The Administrative Services Director shall consider the following factors in considering whether to recommend variable rate debt:

- i. Any long-term issuance of variable rate debt should not exceed twenty percent (20%) of total City General Fund supported debt.
- ii. Any long-term issuance of variable rate debt should not exceed the expected future FFP reserves in the medium term or then current unrestricted General Fund reserve levels.

- iii. Whether interest cost and market conditions (including the shape of the yield curves and relative value considerations) are unfavorable for issuing fixed rate debt.
- iv. The likelihood of projected debt service savings when comparing the cost of fixed rate bonds.
- v. Costs, implementation and administration are quantified and considered.
- vi. Cost and availability of liquidity facilities (lines of credit necessary for variable rate debt obligations and commercial paper in the event that the bonds are not successfully remarketed) are quantified and considered.
- vii. The ability to convert debt to a fully amortizing fixed rate or the permissibility to redeem at par at any time.
- viii. The findings of a thorough risk management assessment.

c) Risk Management

Any issuance of variable rate debt shall require a rigorous risk assessment, including, but not limited to factors discussed in this section. Variable rate debt subjects the City to additional financial risks (relative to fixed rate bonds), including interest rate risk, tax risk, and certain risks related to providing the necessary liquidity required for variable rate debt.

The City shall properly manage risks associated with variable rate debt as follows:

- i. ***Interest Rate Risk and Tax Risk*** - The risk that market interest rates increase on variable-rate debt because of market conditions, changes in taxation of municipal bond interest, or reductions in tax rates.
Mitigation - Limit total variable rate exposure per the defined limits and match the variable rate liabilities with short-term assets.
- ii. ***Liquidity/Remarketing Risk*** - The risk that holders of variable rate bonds exercise their "put" option, tender their bonds, and the bonds cannot be remarketed requiring the bond liquidity facility provider to repurchase the bonds. This will result in the City paying a higher rate of interest to the facility provider and the potential rapid amortization of the repurchased bonds.
Mitigation - Limit total direct variable-rate exposure. Seek liquidity facilities, which allow for longer (5-10 years) amortization of any draws on the facility. Secure credit support facilities that result in bond ratings of the highest short-term ratings and long-term ratings not less than AA. If the City's bonds are downgraded below these levels as a result of the facility provider's ratings, a replacement provider shall be sought.

- iii. **Liquidity/Rollover Risk** - The risk that arises due to the shorter term of most liquidity provider agreements (1-5 years) relative to the longer-term amortization schedule of the City's variable-rate bonds. In particular, (1) the City may incur higher renewal fees when renewal agreements are negotiated and (2) the liquidity bank market constricts such that it is difficult to secure third party liquidity at any interest rate.
- iv. **Mitigation** - Negotiate longer terms on provider contracts to minimize the number of rollovers.

2. Derivatives

The use of certain derivative products to hedge variable rate debt, such as interest rate swaps, may be considered to the extent the City has such debt outstanding or under consideration. The City shall exercise extreme caution in the use of derivative instruments for hedging purposes, and may consider their utilization only when sufficient understanding of the products and sufficient expertise for their appropriate use has been developed. A comprehensive derivative policy shall be adopted by the City prior to any utilization of such instruments.

H. REFUNDING GUIDELINES

The Administrative Services Director shall monitor at least annually all outstanding City debt obligations for potential refinancing opportunities. The City should consider refinancing of outstanding debt to achieve annual savings. Absent a compelling economic reason or financial benefit to the City, any refinancing should not result in any increase to the weighted average life of the refinanced debt.

The City will generally seek to achieve debt service savings that on a net present value basis are at least three percent (3%) of the current debt being refinanced. Any potential refinancing executed more than ninety (90) calendar days in advance of the outstanding debt optional call date shall require at least a three percent net present value savings threshold. If there is negative arbitrage in an advance refunding, the interest efficiency should at least be fifty percent (50%). Under any savings scenario, the net present value assessment shall factor in all costs, including the total cost of issuance, escrow, and foregone interest earnings of any contributed funds on hand. Any potential refinancing shall additionally consider whether an alternative refinancing opportunity with higher savings can be reasonably expected in the future.

Consideration of this method of refinancing shall place greater emphasis on determining whether an alternative refinancing opportunity with higher savings is reasonably expected in the future.

I. COMMUNICATION, ADMINISTRATION AND REPORTING, AND INTERNAL CONTROL PROCEDURES

- 1. Rating Agency Relations and Annual or Ongoing Surveillance** - The Administrative Services Director shall be responsible for maintaining the City's relationships with Standard & Poor's Ratings Services, Fitch Ratings and Moody's Investor's Service. The City is committed to maintaining or improving its existing rating levels. In addition to general communication, the Administrative Services Director shall:
 - a) Ensure the rating agencies are provided updated financial information of the City as it becomes publicly available.
 - b) Communicate with credit analysts at each agency at least once each year, or as may be requested by the agencies.
 - c) Prior to each proposed new debt issuance, schedule meetings or conference calls with agency analysts and provide a thorough update on the City's financial position, including the impacts of the proposed debt issuance.
- 2. Council and Finance Committee Communication** - The Administrative Services Director should report feedback from rating agencies to the City Council and/or Finance Committee, when and if available, regarding the City's financial strengths and weaknesses and recommendations for addressing any weaknesses as they pertain to maintaining the City's existing credit ratings.
- 3. Debt Issue Record-Keeping** - A copy of all debt-related records shall be retained at the City's offices. At minimum, these records shall include all official statements, bond legal documents/transcripts, resolutions, trustee statements, leases, and title reports for each City financing (to the extent available).
- 4. Compliance** - When issuing debt, in addition to complying with the terms of this Policy, the City shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and the investment of bond proceeds in accordance with applicable bond indentures and City Administrative Procedures (AP-009), concerning tax compliance with tax exempt bonds and Build America Bonds. Without limiting the generality of the foregoing, the City shall periodically review the requirements of and will remain in compliance with the following:
 - a) **Continuing Disclosure** - The City shall comply with federal securities law, including any continuing disclosure undertakings entered into by the City in accordance with Securities and Exchange Commission Rule 15c2-12. The City

shall file its annual financial statements and other financial and operating data for the benefit of its bondholders within 270 days of the close of the fiscal year, or as required in any such agreement for any debt issue. The City shall maintain a log or file evidencing that all continuing disclosure filings have been timely made.

- b) **Arbitrage Rebate** - The use of bond proceeds and their investments shall be monitored by the Administrative Services Director to ensure compliance with all Internal Revenue Code Arbitrage Rebate Requirements. The Administrative Services Director shall ensure that all bond proceeds and investments are tracked in a manner that facilitates accurate calculation; and, if a rebate payment is due, such payment is made in a timely manner.
- c) **Annual Reporting** - California Government Code Section 8855(k), or any successor statute, and the annual reporting requirements therein.
- d) **Other Compliance** - Other compliance requirements imposed by regulatory bodies.

5. **Proceeds Administration** - Proceeds of debt will be held either (a) by a third-party trustee or fiscal agent, which will disburse such proceeds to or upon the order of the City upon the submission of one or more written requisitions by the City Manager (or his or her written designee), or (b) by the City, to be held and accounted for in a separate fund or account, the expenditure of which will be carefully documented by the City. On a quarterly basis, the Administrative Services Director shall monitor the proceeds and the disposition of unexpended proceeds.

J. CREDIT RATINGS

The City shall consider published ratings agency guidelines regarding best financial practices and guidelines for structuring its capital funding and debt strategies to maintain the highest possible credit ratings consistent with its current operating and capital needs.

K. LEGAL DEBT LIMIT

Newport Beach City Charter Section 1109 provides that "The City shall not incur an indebtedness evidenced by general obligation bonds which shall in the aggregate exceed the sum of fifteen percent of the total assessed valuation, for purposes of City taxation, of all the real and personal property within the City." While this limit defines the absolute maximum legal debt limit for the City, it is not an effective indicator of the City's affordable debt capacity.

L. AFFORDABILITY

Prior to the issuance of debt to finance a project, the City shall carefully consider the overall long-term affordability of the proposed debt issuance. The City shall not assume more debt without conducting an objective analysis of the City's ability to assume and support additional debt service payments. The City shall consider its long-term revenue and expenditure trends, the impact on operational flexibility and the overall debt burden on the tax payers. The evaluation process shall include a review of generally accepted measures of affordability and will strive to achieve and or maintain debt levels consistent with its current operating and capital needs. The Administrative Services Director shall review benchmarking results of other California cities of comparable size with the City Council prior to any significant project financing.

- 1. General Fund-Supported Debt** - General Fund Supported Debt generally include Certificates of Participation ("COPs") and Lease Revenue Bonds ("LRBs") which are lease obligations that are secured by an installment sale or by a lease-back arrangement between the City and another related public entity. The general operating revenues of the City are pledged to pay the lease payments, which are, in turn, used to pay debt service on the LRBs or COPs. These obligations do not constitute indebtedness under the state constitutional debt limitation and, therefore, are not subject to voter approval.

Payments to be made under valid leases are payable only in the year in which use and occupancy of the leased property is available, and lease payments may not be accelerated. Lease financing requires the fair market rental value of the leased property to be equal to or greater than the required debt service or lease payment schedule. The City as lessee is obligated to place in its Annual Budget the rental payments that are due and payable during each fiscal year the City has use of the leased property.

The City should strive to maintain its net General Fund-backed debt service at or less than eight percent (8%) of annually budgeted General Fund revenue. This ratio is defined as the City's annual debt service requirements on COPs and LRBs compared to total General Fund Revenues. This ratio, which pertains to only General Fund backed debt, is often referred to as "lease burden."

- 2. Revenue Bonds** - Long-term obligations payable solely from specific pledged sources, in general, are not subject to a debt limitation. Examples of such long-term obligations include those which achieve the financing or refinancing of projects provided by the issuance of debt instruments that are payable from restricted revenues or user fees (Enterprise Revenues) and revenues generated from a project.

In determining the affordability of proposed revenue bonds, the City shall perform an analysis comparing projected annual net revenues from pledged sources to estimated annual debt service on revenue bonds. The City should strive to maintain a debt service coverage ratio of at least 125% using historical and/or projected net revenues to cover annual debt service for bonds. The City may require a revenue rate increase or reduce operating costs so that revenues cover both operations and debt service costs, and create debt service reserve funds to maintain the required coverage ratio.

3. **Special Districts Financing** - The City's Special Districts primarily consist of Community Facilities Districts ("CFDs") and 1913/1915 Act Assessment Districts ("Assessment Districts"). The City may consider requests for Special District formation and debt issuance when such requests address a public need or provide a public benefit. Each application shall be considered on a case-by-case basis as long as the City assumes no obligation under, or in connection with, such debt issuance. The Administrative Services Department shall not recommend a financing if it is determined that the financing could be indirectly detrimental to the financial standing of the City or such financing would otherwise not be in the best interests of the City.
4. **Conduit Debt** - Conduit financing provides for the issuance of securities by a government agency to finance a project of a third party, such as a non-profit organization or other private entity. The City may sponsor conduit financings for those activities that have a general public purpose and are consistent with the City's overall service and policy objectives. Unless a compelling public policy rationale exists, such conduit financings will not in any way obligate the City or otherwise pledge the City's faith and credit.

History

Adopted - May 14, 2013

Amended - May 22, 2018

Amended - December 9, 2025