

**RESOLUTION NO. 7894**

**CITY OF SOUTH GATE  
LOS ANGELES COUNTY, CALIFORNIA**

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SOUTH GATE, CALIFORNIA, APPROVING A DEBT MANAGEMENT POLICY AND CONTINUING DISCLOSURE UNDERTAKING POLICY AND AUTHORIZING CERTAIN ACTIONS IN CONNECTION THEREWITH**

**WHEREAS**, California Government Code Section 8855(i) requires public agencies which issue debt securities to adopt a debt management policy that includes specific provisions concerning the use of indebtedness; and

**WHEREAS**, in order to comply with the requirements of State law, the City Council ("City Council") of the City of South Gate ("City") has been presented with a proposed form of debt management policy ("Debt Management Policy") for consideration;

**WHEREAS**, in connection with certain other requirements relating to its indebtedness, the City Council has also been presented with a proposed form of continuing disclosure undertaking policy ("Continuing Disclosure Undertaking Policy") for consideration; and

**WHEREAS**, the City Council now desires to adopt the Debt Management Policy and the Continuing Disclosure Undertaking Policy in the form presented.

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF SOUTH GATE DOES HEREBY RESOLVE AS FOLLOWS:**

**SECTION 1.** The City Council hereby finds and declares that the above recitals are true and correct, and incorporates them into this Resolution.

**SECTION 2.** The City Council hereby approves the Debt Management Policy attached hereto as Exhibit "A." This policy approved hereunder supersedes any policies previously adopted by the City.


[Remainder of page left blank intentionally.]

**SECTION 3.** The City Council hereby approves the Continuing Disclosure Undertaking Policy attached hereto as Exhibit "B." This policy approved hereunder supersedes any policies previously adopted by the City.

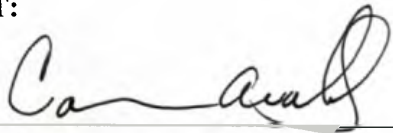
**SECTION 4.** The City Clerk shall certify to the adoption of this Resolution which shall be effective upon its adoption.

**PASSED, APPROVED and ADOPTED** this 26<sup>th</sup> day of November, 2019.

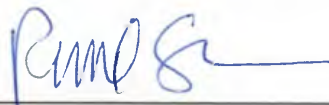
**CITY OF SOUTH GATE:**

By:   
Belen Bernal, Mayor

**ATTEST:**

By:   
Carmen Avalos, City Clerk  
(SEAL)

**APPROVED AS TO FORM:**

By:   
Raul F. Salinas, City Attorney

## Exhibit "A"

### DEBT MANAGEMENT POLICY

This Debt Management Policy (the "Debt Policy") of the City of South Gate was approved by the City Council (as defined below) on November 26, 2019. The Debt 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 of South Gate or its affiliated agencies including the City's Successor Agency, Utility Authority and Public Financing Authority.

This Debt Policy will also apply to any debt issued by any other public agency for which the City Council of the City of South Gate acts as the legislative body (as appropriate, hereinafter, individually or collectively, the "City" and "City Council").

The Debt Policy has been developed to provide guidance in the issuance and management of debt by the City and is intended to comply with Government Code Section 8855(i), effective on January 1, 2017. The main objectives are to establish conditions for the use of debt; to ensure that debt capacity and affordability are adequately considered; to minimize the City's interest and issuance costs; to maintain the highest possible credit rating; to provide complete financial disclosure and reporting; and to maintain financial flexibility for the City.

Debt, properly issued and managed, is a critical element in any financial management program. It assists in the City's effort to allocate limited resources to provide the highest quality of service to the public. The City understands that poor debt management can have ripple effects that hurt other areas of the City. On the other hand, a properly managed debt program promotes economic growth and enhances the vitality of the City for its residents and businesses.

#### 1. Findings

This Debt Policy shall govern all debt undertaken by the City. The City hereby recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the City's sound financial position.
- Ensure the City has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the City's credit-worthiness.
- Ensure that all debt is structured in order to protect both current and future taxpayers, ratepayers and constituents of the City.
- Ensure that the City's debt is consistent with the City's planning goals and objectives and capital improvement program or budget, as applicable.
- Encourage those that benefit from a facility/improvement to pay the cost of that facility/improvement without the need for the expenditure of limited general fund resources.

## 2. Policies

### A. Purposes For Which Debt May Be Issued

The City will consider the use of debt financing primarily for capital improvement projects (CIP) when the project's useful life will equal or exceed the term of the financing and when resources are identified sufficient to fund the debt service requirements. An exception to this CIP-driven focus is the issuance of short-term instruments such as tax and revenue anticipation notes, which are to be used for prudent cash management purposes and conduit financing, as described below. Bonded debt should not be issued for projects with minimal public benefit or support, or to finance normal operating expenses.

If a department has any project which is expected to use debt financing, the department director is responsible for expeditiously providing the City Manager and the Director of Administrative Services (or the person acting in such capacity) with reasonable cost estimates, including specific revenue accounts that will provide payment for the debt service. This will allow an analysis of the project's potential impact on the City's debt capacity and limitations. The department director shall also provide an estimate of any incremental operating and/or additional maintenance costs associated with the project and identify sources of revenue, if any, to pay for such incremental costs.

**(i) Long-Term Debt.** Long-term debt may be issued to finance or refinance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and/or operated by the City.

(a) Long-term debt financings are appropriate when the following conditions exist:

- When the project to be financed is necessary to provide basic services.
- When the project to be financed will provide benefit to constituents over multiple years.
- When total debt does not constitute an unreasonable burden to the City and its taxpayers and ratepayers.
- When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.

(b) Long-term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses.

(c) The City may use long-term debt financings subject to the following conditions:

- The project to be financed has been or will be approved by the City Council.

- The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed by more than 20%, unless specific conditions exist that would mitigate the extension of time to repay the debt and it would not cause the City to violate any covenants to maintain the tax-exempt status of such debt, if applicable.
- The City estimates that sufficient income or revenues will be available to service the debt through its maturity.
- The City determines that the issuance of the debt will comply with the applicable requirements of state and federal law.
- The City considers the improvement/facility to be of vital, time-sensitive need of the community and there are no plausible alternative financing sources.

(d) Periodic reviews of outstanding long-term debt will be undertaken to identify refunding opportunities. Refunding will be considered (within federal tax law constraints, if applicable) if and when there is a net economic benefit of the refunding. Refundings which are non-economic may be undertaken to achieve City objectives relating to changes in covenants, call provisions, operational flexibility, tax status of the issuer, or the debt service profile.

In general, a refunding which produces a net present value savings on the principal of bonds refunded of at least three percent (3%) of the refunded debt will be considered economically viable for a current refunding, which is a bond issue that can be redeemed within 90 days. For a refunding that has a redemption date over 90 days, savings should be four percent (4%) or greater depending on time and interest cost to the redemption date. A current refunding which produces net present value savings of less than three percent (3%) or negative savings will be considered on a case-by-case basis. Similarly, an advance refunding which produces net present value savings of less than four percent (4%) or negative savings will be considered on a case-by-case basis. All refundings must be approved by the City Council.

**(ii) Short-term debt.** Short-term borrowing may be issued to generate funding for cash flow needs in the form of Tax and Revenue Anticipation Notes or Bond Anticipation Notes.

Short-term borrowing, such as commercial paper, and lines of credit, will be considered as an interim source of funding in anticipation of long-term borrowing. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs. Prior to issuance of the short-term debt, a reliable revenue source shall be identified to secure repayment of the debt. The final maturity of the debt issued to finance the project shall be consistent with the economic or useful life of the project and, unless the City Council determines that extraordinary circumstances exist, must not exceed seven (7) years.

Short-term debt may also be used to finance short-lived capital projects; for example, the City may undertake lease-purchase financing for equipment.

**(iii) Financings on Behalf of Other Entities.** The City may also find it beneficial to issue debt on behalf of other governmental agencies or private third parties in order to further the public purposes of the City. In such cases, the City shall take reasonable steps to confirm the financial feasibility of the project to be financed and the financial solvency of any borrower and that the issuance of such debt is consistent with the policies set forth herein. In no event will the City incur any liability or assume responsibility for payment of debt service on such debt.

## **B. Types of Debt**

In order to maximize the financial options available to benefit the public, it is the policy of the City to allow for the consideration of issuing all generally accepted types of debt, including, but not exclusive to the following:

**General Obligation (GO) Bonds:** General Obligation Bonds are suitable for use in the construction or acquisition of improvements to real property and/or public infrastructure that benefit the public at large. Examples of projects include libraries, parks, overpasses and public safety facilities. All GO bonds shall be authorized by the requisite number, currently 2/3, of voters in order to pass.

**Special Revenue Bonds:** Revenue Bonds are limited-liability obligations tied to a specific enterprise or special fund revenue stream where the projects financed clearly benefit or relate to the enterprise or are otherwise permissible uses of the special revenue. Generally, no voter approval is required to issue this type of obligation if structured as a lease revenue, installment revenue or refunding but in some cases, the City must comply with proposition 218 regarding rate adjustments. In connection with any financing, the City will covenant to maintain an operating reserve within the enterprise fund or special fund equal to at least six (6) months of operating and maintenance expenses.

**Lease-Backed Debt/Certificates of Participation (COP/Lease Revenue Bonds):** Issuance of lease-backed debt is a commonly used form of debt that allows a City to finance projects where the debt service is secured via a lease or installment sale agreement and where the payments are budgeted in the annual budget appropriation by the City from the general fund. Lease-backed debt does not constitute indebtedness under the state or the City's constitutional debt limit and does not require voter approval. Lease revenue bonds may be issued by the South Gate Public Financing Authority on behalf of the City or by the Utility Authority.

**Special Assessment/Special District Debt:** The City will consider requests from developers or other property owners for the use of debt financing secured by property based assessments or special taxes in order to provide for necessary infrastructure for new development or additions or replacement of existing infrastructure only under strict guidelines adopted by City Council, which may include minimum value-to-lien ratios and maximum tax burdens. Examples of this type of debt are Assessment Districts (AD) and Community Facilities Districts (CFD), more commonly known as Mello-Roos Districts. In order to protect bondholders as well as the City's credit rating, the City will also comply with all State guidelines regarding the

issuance of special district or special assessment debt. The credit criteria for Special Assessment/Special District Debt will be reviewed on a case by case basis in consultation with its Municipal Advisor.

**Tax Allocation Bonds:** Tax Allocation Bonds are special obligations that are secured by the allocation of tax increment revenues that are generated by increased property taxes in the designated redevelopment area. Tax Allocation Bonds are not debt of the City. Due to changes in the law affecting California Redevelopment agencies with the passage of ABX1 26 (as amended, the "Dissolution Act") as codified in the California Health and Safety Code, the South Gate Community Development Commission ("CDC") was dissolved as of February 1, 2012, and its operations substantially eliminated but for the continuation of certain enforceable CDC obligations to be administered by the Successor Agency to the CDC ("Successor Agency"). The Successor Agency may issue Tax Allocation Bonds to refinance outstanding obligations of the CDC, subject to limitations included in the Dissolution Act.

**Revenue Bonds:** Revenue bonds are special obligations of the City's enterprise funds that are secured by a pledge of net operating revenues from those enterprises. Revenue bonds are not a debt of the City. Revenue bonds generally require a rate covenant whereby the City promises to raise water or sewer rates in a sufficient amount to assure debt service coverage. This may require special hearings or notices to utility users. Revenue bonds should be structured to assure level annual debt service and the term of the bonds should match the useful life of the improvement being financed. Debt coverage should not be less than 120% unless special circumstances require it. Operating reserves should equal at least six (6) months of operation and maintenance expenses.

**Pension Bonds:** The City may issue taxable pension bonds, if needed, to meet its pension obligation or OPEB requirements. This type of debt would be secured by the City's General Fund and is only issued after independent study and evaluation including a review by the City's Municipal Advisor and Bond Counsel.

**Interfund Loans.** In lieu of issuing bonds or otherwise borrowing from third-parties, there will be situations that the most appropriate means for the City to borrow money will be through a loan from a well-capitalized City fund. Such Interfund Loans can be seen as an alternative investment of temporarily surplus City funds, which normally would be invested at a short-term rate as part of the City's pooled investment program.

In approving any new Interfund Loan, the City Council will adopt a resolution that sets forth the terms of the loan, which will include the following:

- The interest rate that the loan will bear until repayment. Appropriate interest rates may be the rate that the investment pool is earning at the time the loan is approved, the rate that the investment pool earns over the term of the loan, the rate of a US Treasury security of an equivalent term of the loan, or a rate that reflects the additional risk or illiquidity of the loan to fully compensate the fund that provides the loan.

- The terms under which the loan will be repaid such as frequency of payment (monthly, semiannually, annually), interest calculation method (360/365, monthly, annually), date of repayment (first day of the month, last day of the month, etc.), prepayment penalty, prepayment/early repayment/accelerated payment options and other payment terms.
- Periodic payment amount.
- The maturity date of the loan.

If there is a possibility that the loan will be repaid from the proceeds of tax-exempt bonds, a statement of such expectations is required so as to satisfy the federal tax law requirements for reimbursement bonds.

**Other Forms of Debt and Preferences.** The City may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy.

To maintain a predictable debt service burden, the City will give preference in the future to debt that carries a fixed interest rate. An alternative to the use of fixed rate debt is variable rate debt. The City may choose in the future to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of securities. When making the determination to issue bonds in a variable rate mode in the future, consideration will be given in regards to the useful life of the project or facility being financed or the term of the project requiring the funding, market conditions, credit risk and third party risk analysis, and the overall debt portfolio structure when issuing variable rate debt for any purpose. The City's goal is to limit the maximum amount of variable-rate debt payable from the general fund to no more than 20 percent of the total debt payable from the general fund or any special revenue funds.

The City will not employ derivatives, such as interest rate swaps, in its debt program unless specifically recommended by its Municipal Advisor and Bond Counsel and only if such derivatives reduce or hedge existing risk, such as on variable rate issue. A derivative product is a financial instrument which derives its own value from the value of another instrument, usually an underlying asset such as a stock, bond, or an underlying reference such as an interest rate. Derivatives are commonly used as hedging devices in managing interest rate risk and thereby reducing borrowing costs. However, these products bear certain risks not associated with standard debt instruments.

### **C. Relationship of Debt to Capital Improvement Program and Budget**

The City intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the City's capital budget and the capital improvement plan.

The City shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that funds 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 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 Debt Policy and to implement policy decisions incorporated in the City's annual operating budget.

It is a policy goal of the City to protect taxpayers, ratepayers 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 will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.

Except as described in Section 2.A., when refinancing debt, it shall be the policy goal of the City to realize, whenever possible, and subject to any overriding non-financial policy considerations, minimum net present value debt service savings equal to or greater than three percent (3%) of the refunded principal amount for a current refunding or four percent (4%) of the refunded principal amount for an advance refunding.

#### **E. Internal Control Procedures**

The Director of Administrative Services, or his or her designee (the "Designated City Representative"), is hereby appointed as the City official responsible for the following:

- Debt issuance and management, recognizing that assigned staff may be charged with certain day-to-day responsibilities.
- Working with the City Manager and other staff deemed appropriate in formulating the City's debt management plans, executing those plans, and ensuring appropriate debt management.
- Keeping the City Council informed of the City's debt-related activities through informational reports, briefings, or workshops.

When issuing debt, in addition to complying with the terms of this Debt Policy, the City shall comply with all continuing bond disclosure requirements and the post-issuance compliance with Federal Tax Requirements applicable to Tax-Exempt Bonds, and any other applicable policies regarding initial bond disclosure and investment of bond proceeds.

The City will periodically review the requirements of, and will remain in compliance with, the following:

- any continuing disclosure undertakings under SEC Rule 15c2-12,

- any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues, and
- the City's investment policies as they relate to the investment of bond proceeds.

The City shall be vigilant in using bond proceeds in accordance with the stated purpose at the time that such debt was issued. Whenever reasonably possible, proceeds of debt will be held by a third-party trustee and the City will submit written requisitions for such proceeds. The City will submit a requisition only after obtaining the signature of the City Manager or the Director of Administrative Services/Treasurer or such other designee as appropriate.

#### **F. Financing Professionals**

The Designated City Representative, in consultation with the City Manager, if not the City Manager, will be responsible for recommending to the City Council the various members of the financing team, based on prior experience, recommendations or a request for proposal process, as he or she deems appropriate for that particular selection or as directed by the City Council.

**Bond and Disclosure Counsel.** Bond counsel is a specialized legal practice responsible for drafting legal documents and providing necessary opinions and will be appointed for any financings. For all public sales of debt, the City will use the services of counsel to prepare the official statement. The Designated City Representative will determine whether to select another law firm to provide the services of disclosure counsel or to assign such duties to bond counsel.

**Municipal Advisor.** The municipal advisor is a consultant hired to assist the City in evaluating financing options, structuring of its debt offerings, making recommendations as to the method of sale, conducting competitive bond sales, and assisting with bringing negotiated bond sales to market, including making recommendations to the City on proposed interest rates, prices and yields in light of market conditions and the characteristics of the bonds. The City will retain the services of a municipal advisor on all publicly offered debt issues.

**Underwriter.** If the City elects to sell its debt through a competitive sale, the underwriter will be selected based on the best bid. At those times that the City decides to issue its debt through a negotiated sale, it will select one or more underwriters.

**Trustee.** The Designated City Representative shall have the discretion to select a commercial banking firm as trustee in connection with any given financing.

Other financial professionals or firms may be required and/or advantageous depending on the particular bond issue. For example, a verification agent is typically necessary for refundings, while tax increment financings commonly have an independent fiscal consultant's report.

#### **G. Initial Disclosure**

When the City determines to issue debt directly, the Director of Administrative Services shall request the involved departments to prepare, review or update portions of any required offering document or preliminary official statement (the "POS") within their particular areas of

knowledge for which they are responsible. The information contained in the POS is developed by personnel under the direction of the Director of Administrative Services, with the assistance of the financing team, including Bond Counsel, Disclosure Counsel, City Attorney and its Municipal Advisor. The financing team shall assist staff in determining the materiality of any particular item, and in the development of specific language for the POS. Once the draft POS has been substantially updated, the entire draft POS is reviewed in its entirety to obtain final comments and to allow the underwriters, if any, to ask questions of the City's senior officials.

A substantially final form of the POS is provided to the City Council in advance of approval, generally by including the document with the agenda material relating to the approval of the debt, to afford such City Council an opportunity to review the POS, ask questions and make comments.

#### **H. Credit Quality**

The City seeks to obtain and maintain the highest possible credit ratings for all categories of short-and long-term debt. The City will not issue bonds directly or on behalf of others such as private activity bonds that do not carry investment grade ratings of BBB or higher from Standard and Poor's or Baa2 from Moody's Investor Service unless such bonds are privately placed with appropriate resale restrictions. The City will consider the public issuance of non-rated special assessment and community facilities district bonds but only upon recommendation of its Municipal Advisor and provided such bond meets the requirements of the City.

Special Bond Reserve Funds and Bond Insurance. The City may consider eliminating bond reserve funds so long as the elimination does not materially reduce the credit rating of the bonds. The City may also consider bond insurance, bank letters of credit, or other forms of guarantee or bond reserve fund surety policies so long as premiums or costs are more than offset by a reduction in interest costs.

#### **I. Method of Issuance**

The City will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation in consultation with its Municipal Advisor. Public offerings can be executed through either a competitive sale or a negotiated sale. It shall be the policy of the City to issue debt through a competitive sale whenever feasible.

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

*Negotiated Sale* - The City recognizes that some securities are best sold through negotiation. In consideration of a negotiated sale, the City shall assess the following circumstances in determining the advisability of such a sale:

- Issuance of variable rate or taxable bonds
- Complex structure or credit considerations (such as non-rated bonds), which requires a strong pre-marketing effort

- Significant par value, which may limit the number of potential bidders
- Unique proprietary financing mechanism (such as a financing pool), or specialized knowledge of financing mechanism or process
- Market volatility, such that the City would be better served by flexibility in the timing of its sale in a changing interest rate environment
- When an Underwriter has identified new financing opportunities or presented alternative structures that financially benefit the City that could not be achieved through a competitive bid.
- As a result of an Underwriter's familiarity with the project/financing, which enables the City to take advantage of efficiency and timing considerations.

*Private Placement* – From time to time the City may elect to issue debt on a private placement basis. Such method shall only be considered if it is demonstrated to result in cost savings or provide other advantages relative to other methods of debt issuance, or if it is determined that access to the public market is unavailable and timing considerations require that a financing be completed.

#### **J. Waivers of Debt Policy**

There will be circumstances, from time to time, when strict adherence to a provision of this Debt Policy is not possible or not in the best interest of the City.

If City staff has determined that a waiver of one or more provisions of this Debt Policy should be considered by the City Council, it will prepare an analysis for the City Council describing the rationale for the waiver and the impact of the waiver on the proposed debt issuance and on taxpayers, if applicable.

Upon a majority vote of the City Council, one or more provisions of this Debt Policy may be waived for a debt financing.

The failure of a debt financing to comply with one or more provisions of this Debt Policy shall in no way affect the validity of any debt issued by the City in accordance with applicable laws.

## **CONTINUING DISCLOSURE UNDERTAKING POLICY**

### **1. PURPOSE**

The following policy of the City of South Gate, California (including other of the City's related entities, the "City") is intended to ensure compliance with securities law requirements applicable to the City's issues, whether comprising bonds, bond anticipation notes, certificates of participation, revenue obligations or other instruments.

### **2. IN GENERAL**

The Securities and Exchange Commission Rule 15c2-12, as amended (the "Rule"), requires certain information regarding an entity responsible for the repayment of a municipal security (an "Issuer") be disclosed to the municipal marketplace. In 2010, the U.S. Securities and Exchange Commission ("SEC") amended the Rule to enhance the disclosure requirements of Issuers in an effort to improve the quality and availability of information regarding outstanding municipal securities. In SEC Rel. No. 34-62184, accompanying an expansion of the Rule, the SEC summarized its "mandate to adopt rules reasonably designed to prevent fraudulent, deceptive or manipulative acts or practices in the market for municipal securities." The release reiterates the SEC's position that material non-compliance by an Issuer with past continuing disclosure obligations may warrant, without corrective actions, an underwriter being prohibited from underwriting such an Issuer's municipal securities, and thus would prevent the Issuer from accessing the municipal securities market.

The City Council of the City of South Gate (the "City Council") acknowledges that, pursuant to the Rule, the City is required on an ongoing basis to provide certain financial and operating data to those persons and firms who own or are interested in purchasing the bonds, bond anticipation notes, certificates of participation, revenue obligations and other municipal obligations of the City previously issued and those which may in the future be issued by or on behalf of the City (the "Obligations"). Pursuant to the Rule, the City has entered into a number of undertakings, such as an agreement or certificate, under the Rule (each, a "Continuing Disclosure Undertaking") regarding its outstanding Obligations and will be required to enter into a new Continuing Disclosure Undertaking with regard to any additional Obligations of the City.

Inasmuch as the Rule prevents an investment banking firm, or underwriter (each, an "Underwriter") from purchasing the Obligations of the City in the absence of a Continuing Disclosure Undertaking and adequate assurances from the City that it will comply with the terms thereof, it is vital that the City maintain compliance with the Rule and its Continuing Disclosure Undertakings.

### **3. SELECTION OF RESPONSIBLE OFFICER**

The City will identify, on an annual basis, the Director of Administrative Services, or his or her designee as the Responsible Officer ("Responsible Officer"), who will be responsible for compiling and filing annual reports (the "Annual Reports") and notices (the

“Listed Event Notices”) of the occurrence of certain listed events (found in each Continuing Disclosure Undertaking), if necessary. In the absence of such delegation by the City Council, the Responsible Officer shall be the City Manager of the City.

#### **4. ELECTRONIC MUNICIPAL MARKET ACCESS**

The Responsible Officer will familiarize themselves with the Municipal Securities Rulemaking Board’s (“MSRB”) Electronic Municipal Market Access (“EMMA”) website. The Responsible Officer will understand how to locate the City’s Obligations on EMMA. If the City is serving as its own Dissemination Agent, the Responsible Officer will establish a user identification and password for EMMA and become familiar with uploading documents onto EMMA.

#### **5. IDENTIFYING AND UNDERSTANDING EXISTING CONTINUING DISCLOSURE OBLIGATIONS**

The Responsible Officer will, for each separate issue of outstanding municipal securities to which the Rule applies, read the related Continuing Disclosure Undertaking and identify the following:

- The date by which the Annual Report must be filed;
- The contents that need to be included in the Annual Report;
- The Listed Event Notices that must be filed; and
- When Listed Event Notices are required to be filed.

#### **6. PREPARING AND SUBMITTING THE ANNUAL REPORT**

*Preparing Annual Audited Financial Statements.* The City will begin the process of completing its audited financial statements as soon as practicable after the close of each Fiscal Year. Such audited financial statements should be completed at least one month prior to the date the Annual Report must be filed.

*Preparation of Tables and Other Information.* The Responsible Officer will identify any information that is required to be included in the Annual Report but is not part of the City’s audited financial statements, and contact the sources necessary to compile such information as soon as possible after the close of each Fiscal Year. The City should consider adding any information required by its Continuing Disclosure Undertakings not included already in its audited financial statements into a supplementary information section of its audited financial statements.

*Submission of Annual Report.* Following the compilation of the information that is to be included in the Annual Report and prior to the date on which the Annual Report must be filed, the Responsible Officer will submit the Annual Report to the Dissemination Agent identified in the Continuing Disclosure Undertaking or to EMMA, as applicable.

*Review of EMMA.* Following the submission of the Annual Report to EMMA or the Dissemination Agent, as applicable, the Responsible Officer should review the EMMA website to confirm that the Annual Report has been posted. If the Annual Report has not been posted, the Dissemination Agent should be notified, or the Responsible Officer should file the Annual Report, as applicable.

## **7. IDENTIFYING AND REPORTING LISTED EVENTS**

*Understanding the Listed Events.* The Responsible Officer should be aware of the listed events (found in each Continuing Disclosure Undertaking) (the "Listed Events") necessitating the filing of a Listed Event Notice. The Listed Events required to be included in each Continuing Disclosure Undertaking pursuant to the Rule have been included as Appendix A to this policy. Appendix A also includes two Listed Events that became effective for all Continuing Disclosure Undertakings entered into on or after February 27, 2019. These Listed Events are discussed in further detail below. If clarification is required regarding what is meant by each such Listed Event, the City's disclosure counsel should be contacted to clarify such meaning.

*Filing Event Notices.* Each such notice shall be filed by the City, or by the Dissemination Agent, if any, on behalf of the City, to EMMA in a timely manner.

*Occurrence of a Listed Event.* The Issuer should contact its disclosure counsel if it has any questions regarding the occurrence of a Listed Event, and whether such occurrence may require the filing of an Event Notice.

*Additional Listed Events Required in Continuing Disclosure Undertakings Entered Into On and After February 27, 2019.* As a result of an amendment to the Rule, Continuing Disclosure Undertakings entered into on or after February 27, 2019, are required to include certain additional Listed Events relating to: (a) the incurrence of certain financial obligations if material (other than bonds or notes for which an official statement has been posted to EMMA), (b) the modification of the terms of a financial obligation which affects security holders, if material, and (c) a default, event of default, acceleration, waiver or other modification or similar events with respect to a financial obligation that reflects financial difficulties. Included as Appendix A is a list of the Listed Events required by the Rule, identifying the two additional events that were incorporated by the amendment to the Rule and are required to be in all Continuing Disclosure Undertakings after February 27, 2019.

As provided in the amendment to the Rule, "[t]he term "financial obligation" means a: (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term "financial obligation" does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule (i.e., posted to EMMA).

Debt Obligations. SEC Rel. No. 34-83886 (the "SEC Release"), the adopting release published in connection with the amendments to the Rule, interprets debt

obligations to include both debt and debt-like obligations, and requires them to be disclosed when incurred or amended, if material.

Debt obligations exclude bonds, notes or other obligations (including lease revenue bonds or certificates of participation) offered pursuant to an official statement that complies with the Rule, and is posted by the underwriter or the Issuer to EMMA. Debt obligations also exclude ordinary financial and operating liabilities incurred in the normal course of the Issuer's business.

The SEC Release interprets debt-like obligations to include leases that are "vehicles to borrow money." The SEC Release points to lease-revenue transactions and certificates of participation transactions as examples of such vehicles, as these transactions involve a person advancing money to an Issuer which will be used by the Issuer to acquire or improve property, obtaining title to, or a lease of, the property, and leasing or subleasing the property to the Issuer in consideration for rent that repays the advance. Most operating leases would not fall into the category of debt obligations for purposes of the amendment either because they do not result in the receipt of money by or for the benefit of an Issuer or are ordinary obligations incurred in the normal course of Issuer operations.

Derivative Instruments. The SEC defines "derivative instruments" as "a derivative instrument entered into in connection with, or pledged as a security or a source of payment for, an existing or planned debt obligation." The SEC Release interprets "derivative instrument" to include any swap, security-based swap, futures contract, forward contract, option, any combination of the foregoing, or any similar instrument," but only if related to an existing or planned debt, either because entered into to hedge the debt or pledged as security for the debt.

Guarantees. The SEC Release states that an Issuer's "guarantee" of a "debt obligation" or covered derivatives instrument would also be considered a "financial obligation." For these purposes, "guarantee" is intended to include any obligation to pay or secure a third party's or Issuer's financial obligation. This term would include a payment guarantee by an entity such as the City.

It is hereby the policy of the City, that the Responsible Officer be notified of the incurrence of any financial obligation to be entered into by, or on behalf of, the City. The Responsible Officer shall take measures to advise all applicable City staff of this City policy.

In addition, such Responsible Officer will notify the City's municipal advisor and the City's bond counsel and/or disclosure counsel of the receipt by the City of any default, event of acceleration, termination event, modification of terms (only if material or reflecting financial difficulties), or other similar events under any agreement or obligation to which the City is a party and which may be a "financial obligation" as discussed above. Such notice should be provided by the Responsible Officer as soon as the Responsible Officer receives notice from City staff, consultants or external parties of such event or receives direct written notice of such event so that the City can determine, with the assistance of



the municipal advisor and bond counsel and/or disclosure counsel, whether notice of such event is required to be filed on EMMA pursuant to the Rule. If filing on EMMA is required, the filing is due within 10 business days of the occurrence of such event to comply with the applicable Continuing Disclosure Undertaking entered into after February 27, 2019.

The City will develop a system whereby a designated member of City Staff will create a list identifying the execution by the City of any agreement or other obligation which might constitute a "financial obligation" for purposes of the Rule and which is entered into after February 27, 2019. Amendments to existing agreements or financial obligations which relate to covenants, events of default, remedies, priority rights, or other similar terms should be reported to the City's municipal advisor and the City's bond counsel and/or disclosure counsel as soon as notice of amendment requests is received by City staff, consultants, or external parties of such event. Such notice is necessary so that the City can determine, with the assistance of bond counsel and/or disclosure counsel, whether such agreement or other obligation constitutes a material "financial obligation" for purposes of the Rule. If such agreement or other obligation is determined to be a material "financial obligation" or a material amendment to a "financial obligation" described above, notice thereof would be required to be filed on EMMA within 10 business days of execution or incurrence.

## **8. RECORD RETENTION**

The City should retain the transcript containing the documents related to each issue of municipal securities of the City. The City will retain electronic and paper copies of each Annual Report submitted to EMMA. The City will retain electronic and paper copies of each Listed Event Notice submitted to EMMA. The City should retain all source data used to complete the Annual Report. For example, source material pertaining to assessed valuation, tax rates or other tables noted in the Continuing Disclosure Undertaking that are required to be updated annually.

The Responsible Officer should create an index cataloging the aforementioned documents (the "retained documents"). Such index and documents should be stored at the main office of the City. The Responsible Officer should be responsible for the maintenance and updating of such index. If the individual serving as Responsible Officer is replaced, the index, the retained documents and a copy of these procedures should be provided to the individual assuming the position of Responsible Officer.

The retained documents identified in this Section 8.0 should be retained for a period of at least six years following the maturity, prepayment or redemption of the related issue of municipal securities.

## **9. EFFECTIVE DATE**

This Continuing Disclosure Undertaking Policy is effective as of November 26, 2019.

## Appendix A

### Listed Events – Pre-February 27, 2019

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (vii) modifications to rights of security holders, if material;
- (viii) bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the security, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership, or similar event of the Issuer or another obligated person;
- (xiii) the consummation of a merger, consolidation, or acquisition involving the Issuer or another obligated person or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

### New Events – Post-February 27, 2019 Transactions

- (xv) incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies,

priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material; and

- (xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

**RESOLUTION CERTIFICATION PAGE**

**STATE OF CALIFORNIA            )**

**COUNTY OF LOS ANGELES    )       SS**

**CITY OF SOUTH GATE         )**

I, Carmen Avalos, City Clerk of the City of South Gate, California, hereby certify that the whole number of Members of the City Council of said City is five; that Resolution No. 7894 was adopted by the City Council at their Regular Meeting held on November 26, 2019, by the following vote:

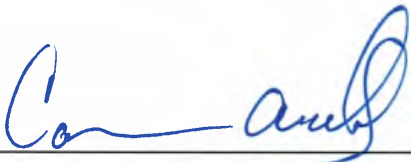
Ayes:            Council Members:    Bernal, Diaz, Davila, De Witt and Rios

Noes:            Council Members:    None

Absent:          Council Members:    None

Abstain:         Council Members:    None

Witness my hand and the seal of said City on November 27, 2019.



\_\_\_\_\_  
Carmen Avalos, City Clerk  
City of South Gate, California