

COUNCIL POLICY NO. C-18

TITLE: POST-ISSUANCE COMPLIANCE PROCEDURES POLICY

POLICY: See attached.

REFERENCE: City Council and Urban Renewal Agency Finance Committee Report dated 11/14/2022, Agenda Item No. 3.2b; City Council and Urban Renewal Agency Finance Committee Report dated 10/24/2022, Agenda Item No. 4a.

**CITY OF SALEM POST-ISSUANCE COMPLIANCE PROCEDURES POLICY
[NOVEMBER 14, 2022]**

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CITY OF SALEM, OREGON
POST-ISSUANCE COMPLIANCE PROCEDURES POLICY

The purpose of this Post-Issuance Compliance Procedures Policy (the “Policy”) is to set forth post-issuance compliance procedures to (1) monitor the federal income tax requirements necessary to maintain the exclusion from gross income of interest on the City’s and/or URA’s Tax-Exempt Obligations (the “Procedures”) for the life of the Tax-Exempt Obligations; and (2) comply with federal securities laws for City or URA borrowings that are publicly offered. This policy works in conjunction with Council Policy C-2 Debt Management Policy. Financial terms can be found in **Appendix I –Glossary**.

I. Purpose – Tax Compliance

Pursuant to the Tax Regulatory Agreements, often titled Tax Certificate, (“TRAs”) executed by the City of Salem, Oregon (the “City”) and Urban Renewal Agency of Salem, Oregon (the “URA”) in connection with the issuance of the City’s and/or URA’s bonds, bond anticipation notes and other tax-exempt or tax-advantaged obligations (the “Tax-Exempt Obligations”), and government finance best practices, the Issuer has covenanted that it shall at all times perform all acts and things necessary or appropriate under any valid provision of law in order to ensure that the interest paid on the Tax-Exempt Obligations shall be excluded from gross income for federal income tax purposes under the Internal Revenue Code.

II. General

A. Responsible Officials.

The following officials/employees shall be responsible for performing the Procedures. The persons named in Appendix II shall also have responsibility for adherence to the Policy and the Procedures described.

B. Training.

The Chief Financial Officer, Chief Accountant, and Treasury Supervisor shall read and become familiar with the requirements and procedures set forth in the TRA for each of the Tax-Exempt Obligations.

The Chief Financial Officer, Chief Accountant, and the Treasury Supervisor shall, on an annual basis, attend at least one (1) appropriate Government Finance Officers’ Association (National, Regional or Oregon/Washington), bond counsel or other seminar or program regarding federal income tax requirements applicable to the Tax-Exempt Obligations.

C. Records Retention.

The Chief Financial Officer or designee shall maintain the following information with respect to the Tax-Exempt Obligations and the projects financed thereby, as applicable (“Bond Documents”), for a period of the life of the Tax-Exempt Obligations (including refundings thereof), plus three (3) years:

Bond transcript	Investment contracts and bid documents
Debt service schedules	Rebate reports, forms, payments

Construction/Purchase
Trustee/Bank statements
Invoices, cancelled checks
Swap documents
Authorizing minutes/resolution
Service or management contracts
Sale or lease agreements

Contracts Arbitrage rebate calculations
Yield reduction payments
Forms 8038T and payment documentation
Forms 8038-CP (for credit payment bonds)
Correspondence with IRS
Amendments to bond documents
Audited financial statements

The retention period corresponds with State administrative rules. The Bond Documents shall be maintained in paper files and electronic media and shall be reduced to electronic media as soon as practicable in accordance with Issuer policy. The Bond Documents shall be maintained on-site or at an offsite storage facility within the City limits.

III. Arbitrage Monitoring

A. The Chief Accountant or their designee shall monitor and document the expenditure of Bond Proceeds on a monthly basis:

1. Bond Proceeds used for reimbursement of expenses incurred prior to the Bond issue date (date of expenditure, check number, payee, amount, purpose, copy of contract, invoice, cancelled check).
2. Bond Proceeds used for construction and costs of issuance (date of expenditure, check number, payee, amount, purpose, copy of contract, invoice, cancelled check).
3. Bond Proceeds used for interest on the Tax-Exempt Obligations.
4. Bond Proceeds deposited into reserves (capitalized interest, debt service, debt service reserve).
5. Bond Proceeds in refunding escrows.
6. Bond Proceeds used for bond insurance, letters of credit, other credit enhancement.
7. Use of grants, Issuer equity and other non-Bond Proceeds for the project.
8. Interest rate swap agreement payments.
9. Date of completion of project(s).

B. The Chief Accountant or designee shall report any unspent Bond Proceeds to the Chief Financial Officer on a semiannual basis.

1. The Chief Financial Officer and Chief Accountant shall consult with Bond Counsel as to the use of unspent Bond Proceeds

C. The Chief Accountant or designee shall monitor and document the investment of Bond Proceeds.

1. Investment of Bond Proceeds and sale of investments.

2. Receipt of investment income.

D. The Chief Accountant shall determine whether the Bond Proceeds have been spent in compliance with a rebate spending exception described in the TRA and report to the Chief Financial Officer.

1. If no rebate spending exception is met, the Chief Financial Officer and Chief Accountant shall consult with Bond Counsel to determine whether an arbitrage rebate calculation is necessary.

E. The Chief Accountant shall determine whether any Bond Proceeds are subject to yield restriction after expiration of a “temporary period” as described in the TRA and report to the Chief Financial Officer.

1. If any Bond proceeds are subject to yield restriction, the Chief Financial Officer shall consult with Bond Counsel to determine whether a yield reduction payment calculation is necessary.

F. The Chief Accountant or designee shall monitor and document debt service payments and report any failure to pay on time to the Chief Financial Officer immediately.

G. The Chief Accountant or designee shall monitor and document the receipt the expenditure of any Federal or State grants, donations, capital campaign contributions or gifts for the Project.

IV. Private Activity Monitoring

A. The Chief Accountant shall monitor and document the property financed by Bond Proceeds.

1. Bond financed property shall be separately identified in asset listings.

2. The Chief Accountant in conjunction with the Budget Officer, shall document the extent to which other sources of financing (e.g. State or Federal grants or General Fund moneys) are used to finance projects funded by Bond Proceeds.

B. The Chief Accountant shall contact the Building & Facilities Manager on an annual basis to determine whether any Bond-financed property has been sold or otherwise disposed of or if there are any plans to sell or otherwise dispose of Bond-financed property.

1. The Chief Financial Officer shall consult with Bond Counsel prior to the sale or disposition of Bond-financed property when there is outstanding debt as such sale or disposition may be prohibited or require certain use of the proceeds from the sale or disposition.

C. The Chief Accountant shall contact the Building & Facilities Manager on an annual basis to determine whether any Bond-financed property has been rented or leased, or if there are any plans to rent or lease Bond-financed property.

1. The Chief Financial Officer shall consult with Bond Counsel prior to the rental or lease of Bond-financed property when debt is still outstanding.

D. The Chief Accountant shall contact the Building & Facilities Manager on an annual basis to determine whether any Bond-financed property is subject to a service or management contract.

1. The Chief Financial Officer shall consult with Bond Counsel prior to entering into a service or management contract involving Bond-financed property when debt is still outstanding.

E. The Chief Accountant shall contact the Building & Facilities Manager on an annual basis to determine whether any Bond-financed property which is intended to be used for general public use or good, is not being used for general public use or good.

F. The Chief Accountant shall contact the Building & Facilities Manager on an annual basis to determine whether any private person or trade or business has any special legal entitlements to Bond-financed property.

G. The Chief Accountant shall contact the Building & Facilities Manager on an annual basis to determine whether any Issuer operations have been privatized, or if there are any plans to privatize any Issuer operation.

H. The Chief Accountant shall contact the Building & Facilities Manager on an annual basis to determine whether any person or legal entity is using any Bond-financed property in a trade or business activity.

V. Reporting and Remedies for Noncompliance

Noncompliance with the Procedures set forth in this Policy can generally be remedied without the interest on the Tax-Exempt Obligations being declared taxable. As such, the following procedures should be followed upon discovery of any potential noncompliance with tax requirements:

A. The Chief Accountant shall report any potential noncompliance with tax requirements to the Chief Financial Officer and the Chief Financial Officer shall consult with Bond Counsel and remedy as recommended.

B. If necessary, and upon the recommendation and advice of Bond Counsel, the Chief Financial Officer shall utilize the remedial action procedures set forth in Treasury Regulation Section 1.141-12 to maintain the exclusion from gross income of interest on the Tax-Exempt Obligations for federal income tax purposes. The Chief Financial Officer shall report said remedial actions to the Finance Committee of the City Council and Urban Renewal Agency if recommended by the City Manager.

C. If necessary, and upon the recommendation and advice of Bond Counsel, the Chief Financial Officer shall utilize the Voluntary Closing Agreement Program set forth in Internal Revenue Manual Section 7.2.3.

VI. Continuing Disclosure

A. The City or URA (collectively the “Issuer”) has issued and may issue borrowings in the public securities market and has executed and may execute “continuing disclosure certificates,” “undertakings” or “continuing disclosure agreements” (collectively, “CDAs”) in which it agrees to make certain kinds of information available to participants in the public securities market. To assist its compliance with its CDAs, the Issuer has adopted these Procedures.

B. This document narrowly focuses on the Issuer’s obligation under its CDAs. The Issuer has many other obligations in connection with its borrowings that are not addressed by this document.

C. Components of CDAs

1. The Bond Compliance Officer and the Alternate Bond Compliance Officer will review the exact language of each CDA at least once each fiscal year and after each new CDA is executed. Each CDA is different and the exact language in each governs the Issuer’s contractual obligations under the CDA.

2. Most CDAs require the Issuer to make two kinds of Filings: Annual Reports and Specified Events.

a. Annual Reports. Annual Reports usually must be filed on EMMA within a certain period of time after the end of each fiscal year. The nature of the Annual Report that is required by each CDA is described in that CDA, but Annual Reports generally consist of:

i. the Issuer’s audited financial statements,

ii. additional financial information and operating data of the type specifically described in each CDA.

b. Specified Events. Recent CDAs require Issuers to report certain Specified Events within ten business days, although older CDAs may only require notice “in a timely manner.” These procedures assume that Filing for a Specified Event must be made within ten business days after the Specified Event occurs.

3. Compliance officers and member of the Disclosure Group must bear in mind that any Filings must be accurate in all material respects.¹

¹ In submitting Filings to EMMA or to third parties, the Issuer is subject to the general antifraud provisions of the federal securities laws, which require that there be no material misstatements or material omissions.

The SEC has stated in the context of an enforcement action against a municipal securities issuer, that “[i]nformation is material if there is a substantial likelihood that a reasonable investor would consider it important to an investment decision.” With respect to omissions (as opposed to misstatements), the standard is whether such omission resulted in a failure “to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.”

In light of such standard, when the Compliance Officer circulates for comment to the Disclosure Group a draft of a Filing, it shall be accompanied by the following cautionary note:

Federal securities laws require that the information be complete, accurate, and in no way misleading. Please review carefully and critically the information that you are providing to be certain, to the best of your knowledge after reasonable inquiry of the appropriate persons, that it is accurate, complete, and not misleading. Please be certain that the source documentation is reliable

D. Roles of Parties

1. The Bond Compliance Officer is primarily responsible for ensuring that the Issuer complies with its CDAs and follows these Procedures.
2. The Alternate Bond Compliance Officer shall assist the Bond Compliance Officer and shall act as the Bond Compliance Officer if the Bond Compliance Officer is not available to perform the Bond Compliance Officer's functions under these Procedures.
3. The Disclosure Group includes other officers or employees of the Issuer who may assist the Bond Compliance Officer and the Alternate Bond Compliance Officer in ensuring that the Issuer complies with its CDAs and these Procedures.
4. The Bond Compliance Officers and the Alternate Bond Compliance Officer shall each report their actions under these Procedures to each other and to any member of the Disclosure Group. Reports shall be made promptly and in writing.

E. Disclosure Group

1. The Disclosure Group shall include:
 - a. Bond Compliance Officer – operationally known as the Chief Financial Officer,
 - b. Alternate Bond Compliance Officer – operationally known as the Chief Accountant,
 - c. Treasury Supervisor,
 - d. Accounting Supervisor
 - c. Any officer or employee of the Issuer who is appointed as a member of the Disclosure Group by the Compliance Officer.
2. Not later than sixty days after the beginning of each Fiscal Year, the Compliance Officer shall determine whether additional members should be appointed to the Disclosure Group to assist the Issuer in carrying out these Procedures. The Compliance Officer may appoint anyone the Compliance Officer believes would assist the Issuer in carrying out these procedures. If Issuer officers or employees have special knowledge relating to matters that the Issuer is required by its CDAs to report on EMMA, the Compliance Officer should consider appointing those people to the Disclosure Group. For example, if the Issuer has water revenue bonds outstanding and the Issuer is required to report financial information relating to the water system that is not contained in the Issuer's audited financial statements, the Compliance Officer should consider appointing someone who has direct knowledge of the financial performance of the water system.

and auditable, should any future inquiry arise. Please provide a copy of all source documentation. Please describe any expectation or other caveats to the information you are providing. Please review the information in its entirety, rather than simply updating that which has already been provided, to determine whether any material changes have occurred or if any new or additional information should be included to make the information that you are providing not misleading and as complete and accurate as possible.

3. The Issuer may create distinct Disclosure Groups for each credit.

4. When the Compliance Officer appoints a person as a member of the Disclosure Group, the Compliance Officer or their designee shall provide that person with a written copy of these Procedures and a copy of all then-outstanding CDAs, and shall notify all other members of the Disclosure Group of the appointment.

E. Annual Reports

1. Promptly after adoption of these Procedures the Compliance Officer shall review all existing CDAs and draft a chart outlining the filing deadlines, the material to be included with each Annual Report Filing for each CDA, and the Specified Events for each CDA. The chart shall be updated every time the Issuer enters into a CDA, and each time a CDA ceases to be in effect. A copy of the updated chart shall be provided to each member of the Disclosure Group for review before the updated chart is finalized. When each chart is finalized a copy shall be provided to each member of the Disclosure Group promptly.

2. Each fiscal year, the Compliance Officer shall calendar the deadlines for each Annual Report Filing, with appropriate reminder notifications for each member of the applicable Disclosure Group. The calendar and notifications shall also appear on a centralized calendar in the office of the Finance Department.

3. Not less than twenty-five (25) days before each Filing deadline, the Compliance Officer shall circulate a draft Filing for review by the Disclosure Group.

4. The members of the Disclosure Group shall review the draft Filing, and shall advise the Compliance Officer of any changes the member recommends.

5. The Compliance Officer shall take any recommended changes into account, finalize and timely make the Filing, and provide a copy of the final Filing to each member of the Disclosure Group.

F. Specified Event Filings.

1. If any member of the Disclosure Group becomes aware of the occurrence of an event that may qualify as a Specified Event, that member shall notify the Disclosure Group immediately.

2. Each member of the Disclosure Group shall provide a recommendation to the Compliance Officer regarding the reporting of that event. If the Compliance Officer determines that the event is a Specified Event, the Compliance Officer shall circulate a draft Specified Event Filing to the Disclosure Group for review within two business days.

3. All available members of the Disclosure Group shall provide comments to the Compliance Officer on the draft Specified Event Filing within one business day after the Compliance Officer circulates the draft Filing.

4. The Compliance Officer shall consider any recommendations of the Disclosure Group, finalize the Specified Event Filing, and file it on EMMA. Unless the Compliance Officer determines that the applicable CDAs do not require the filing to be made within ten business days, the Compliance Officer shall file the Specified Event Filing within ten business days after the Specified Event occurs.

G. Omissions and Voluntary Submissions

1. If any member of the Disclosure Group becomes aware of the occurrence of an event that is not a Specified Event, but that the member believes should be disclosed promptly on EMMA and not as part of the Annual Report, including notice of a failure of the Issuer to comply with its obligations under a CDA or the Rule, that member shall notify the Disclosure Group immediately.
2. Each member of the Disclosure Group shall provide a recommendation to the Compliance Officer regarding the reporting of that event. If the Compliance Officer determines that the Issuer should disclose the event on EMMA promptly and not as part of the Annual Report, the Compliance Officer shall circulate a draft Filing to the Disclosure Group for review within ten business days.
3. All members of the Disclosure Group shall provide comments to the Compliance Officer on the draft Filing within five business days after the Compliance Officer circulates the draft Filing.
4. The Compliance Officer shall consider any recommendations of the Disclosure Group, finalize the voluntary submission Filing, and file it on EMMA within ten business days after comments on the filing are due to the Compliance Officer from the Disclosure Group.

H. Training

1. The Compliance Officer shall be responsible for familiarizing the Disclosure Group and any other appropriate Issuer officials and employees with these Procedures and the Issuer's continuing disclosure obligations.
2. The Compliance Officer shall arrange for a training session to be conducted at least once each fiscal year for all members of the Disclosure Group and for any other Issuer employee identified by the Compliance Officer as having significant responsibility for collecting or analyzing information included in the Filings. The Compliance Officer shall provide appropriate training to any new member of the Disclosure Group who is appointed during a fiscal year after the annual training session for that fiscal year has been held, not later than two months after the person is appointed as a member of the Disclosure Group. To the extent practical, training shall be provided with the assistance of an outside party experienced in the responsibilities of municipal issuers under federal securities laws such as the Government Finance Officers Association, the Issuer's Bond Counsel, or other professional firm.
3. Training sessions shall cover, at a minimum:
 - a. these Procedures;
 - b. the Issuer's disclosure obligations under its CDAs; and
 - c. any changes in laws or regulations and significant new cases or enforcement actions since the date of the most recent prior training session.

Appendix I – Glossary

Alternate Bond Compliance Officer: The Chief Accountant of the Issuer.

Annual: One (1) time per fiscal year.

Annual Reports: The financial information and operating data (including audited financial statements) required to be filed on an annual basis pursuant to the CDAs.

Arbitrage: The difference between the interest rate cost of a debt instrument and the rate of the interest earned on the investment of the proceeds. Federal law limits the amount of interest local governments can earn on proceeds of debt issuance.

Bond Compliance Officer: The Chief Financial Officer of the Issuer, or their designee.

Bond Counsel: An attorney (or firm of attorneys) retained by the City or URA to give a legal opinion concerning validity of security, concerns of City staff regarding post-issuance compliance and other debt related matters. Bond counsel may prepare, review and/or advise the issuer during any point in the life of the debt including but not limited to authorizing resolutions or ordinances, trust indentures, official statements, validation proceedings, disclosure requirements and litigation.

Bond-financed project: A capital project that is funded solely or in part by debt. Depending on the type of debt utilized to finance the project, there are additional/specific reporting and operational requirements for the funds.

Bond-financed property: A piece of any type of physical or technological property that can be capitalized and is funded solely or in part by debt. Depending on the type of debt utilized to finance the property, there are additional/specific reporting and operational requirements for the funds.

CDAs: The Issuer's continuing disclosure certificates, continuing disclosure agreements and undertakings relating to its outstanding securities entered into pursuant to the Rule.

Compliance Officer: the Bond Compliance Officer, or the Alternate Bond Compliance Officer if the Bond Compliance Officer is not available to perform the duties of the Compliance Officer under these Procedures.

Disclosure Group: the group described in Section IV E of this Policy that assists the Issuer in complying with this Policy.

EMMA: Electronic Municipal Market Access system maintained by the Municipal Securities Rulemaking Board.

Filing: the filings of Annual Reports, Specified Events and other information that the Issuer submits to EMMA in accordance with the Issuer's CDAs, in accordance with the Rule or other applicable law, or voluntarily.

Issuer: Legal entity issuing debt, either the City of Salem, Oregon or the Salem Urban Renewal Agency.

Monthly: One (1) time per month after the close of the prior month's general ledger.

Outstanding Debt: Any debt that still has interest and/or principle payments that remain owed to the holder of the City or URA's debt.

Private Use/Good: When the primary or exclusive benefit of a project or property financed in part or in whole by debt is to serve the interest of an individual, business, company or trade.

Procedure/Policy: This Post Issuance Compliance Policy and the procedures therein.

Public Use/Good: When the primary or exclusive benefit of a project or property financed in part or in whole by debt is to serve the interest of the community.

Rule: Rule 15c2-12 of the Securities and Exchange Commission, adopted under the Securities Exchange Act of 1934, 17 CFR § 240.15c2-12.

Semi-Annual: Two (2) times per fiscal year. Once after the prior fiscal year audit has been completed and once before the next fiscal year's purposed City or URA Budget is published.

Specified Events: List of specific events that the Issuer is required by each CDA to report on EMMA very promptly, usually within ten days. "Specified Events: are often referred to as "material events".

Appendix II: Authorized Staff by Title

Accounting Supervisor: Responsible in conjunction with Chief Accountant for reporting requirements. Official a part of the Disclosure Group.

City Manager: Chief Administrative Officer of the City and of the Urban Renewal Agency. Responsible for reporting to the City and Urban Renewal Agency Finance Committee.

Chief Financial Officer: Officer in charge of the City and Urban Renewal Agency finances, oversees the Chief Accountant and is part of the Disclosure Group.

Chief Accountant: Official in charge of monitoring spending of Bond Proceeds, compliance with debt covenants and policies, oversees the Treasury Supervisor and Accounting Supervisor and is part of the Disclosure Group.

Building & Facilities Manager: Official in charge of monitoring the use of facilities. Official is issuance or project specific.

Treasury Supervisor: Employee in charge of record retention, compliance with this policy, payments of debt issuance and investments of bond proceeds and is part of the Disclosure Group.

Budget Officer: Officer in charge of annual budget and Capital Improvement Plan creation and publication.



Staff Report

File #: 22-512
Version: 1

Date: 11/14/2022
Item #: 3.2 b.

TO: Mayor and City Council
THROUGH: Keith Stahley, City Manager
FROM: Finance Committee of the Salem City Council and the Urban Renewal Agency of the City of Salem

SUBJECT:

A Resolution adopting Council Policy C-18, Post-Issuance Compliance Procedures Policy

Ward(s): All Wards
Councilor(s): All Councilors
Neighborhood(s): All Neighborhoods
Result Area(s): Good Governance.

SUMMARY:

When issuing debt (notes, general obligation bonds, revenue bonds, etc.) the City and Urban Renewal Agency have continuing disclosure responsibilities that occur post issuance and often until the debt is repaid. As a best practice for government finance, a post issuance compliance policy is recommended for adoption. This policy was approved and forwarded to City Council for subsequent approval by the Finance Committee at their meeting on October 24, 2022.

ISSUE:

Shall the City Council adopt Resolution No. 2022-55 establishing Council Policy C-18, Post-Issuance Compliance Procedures Policy for debt issuances?

RECOMMENDATION:

Adopt Resolution No. 2022-55 establishing Council Policy C-18, Post-Issuance Compliance Procedures Policy for debt issuances.

FACTS AND FINDINGS:

The Government Finance Officers Association (GFOA) is the leading body for government finance officials and organizations. The GFOA provides best practices and guidelines consistent with Securities and Exchange Commission (SEC) and Government Accounting Standards Board (GASB) to government finance officials and departments across the nation. Such a best practice involves continuing disclosure responsibilities.

Upon completion of a successful debt issuance, those institutions buying an issuer's debt (such as a bank) often have requirements for the borrower until the debt is repaid in full. When a buyer of debt does not have these requirements, Federal or State institutions - such as the SEC - still necessitate certain elements of continuing disclosure. Typical examples of continuing disclosure including the posting of the City and / or Urban Renewal Agency's annual audit report and the budget to the federally ran Municipal Securities Rulemaking Board (MSRB) Electronic Municipal Market Access (EMMA) website. Other examples include notifying debt buyers of material financial events like delinquency, insolvency or actions of a governing body like the changing of a financial policy that happen post issuance.

Post-issuance compliance procedures policies are not only a best government financial practice, but have real world implications. Rate agencies such as Moody's and Fitch will look at the financial policies of a governing body to take note of the fiscal stewardship of the institution when providing a credit rating. Credit ratings then inform buyers of debt of the overall, high level fiscal condition of an issuer which will in turn impact the willingness of a buyer to purchase debt and at a more competitive rate.

The adoption of this proposed continuing disclosure procedures policy will demonstrate the City's dedication to fiscal best practices to the public, debt holders and credit agencies.

BACKGROUND:

During the Summer and Fall of 2022, Finance Department staff worked to create a proposed post debt issuance compliance procedures policy. In the coming months, a separate report will be presented to the Urban Renewal Agency Board regarding financial policies for that body.

Kelli Blechschmidt
Management Analyst I

Attachments:

1. Resolution No. 2022-55
2. Resolution No. 2022-55, Exhibit A - Draft Council Policy C-18, Post-Issuance Compliance Procedures Policy