

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK  
("IBank")**

**STAFF REPORT – 2017 Debt Management Policy**

**ISSUE:**

Staff requests approval of the California Infrastructure and Economic Development Bank's ("IBank") 2017 Debt Management Policy (the "2017 Debt Policy"). The purpose of the Debt Policy is to establish comprehensive guidelines for the issuance and management of IBank's bonds and other obligations for borrowed money, including revenue bonds, notes and commercial paper notes (collectively, "Bonds"). The Debt Policy is intended to help ensure that: (i) IBank's Board of Directors (the "Board") and IBank staff adhere to sound debt issuance and management practices; (ii) IBank achieves the most advantageous cost of borrowing while at the same time incurring only prudent levels of risk; and (iii) IBank maintains a sound debt position and preserves the credit quality of its Direct Bonds (defined below).

**BACKGROUND:**

Debt management policies are written guidelines, allowances, and restrictions that guide the debt issuance practices of public entities, including the issuance process, management of a debt portfolio, and adherence to various laws and regulations. A debt management policy should articulate policy goals, provide guidelines for the structure of debt issuance, improve the quality of debt decisions, and demonstrate a commitment to long-term capital and financial planning. Adherence to a debt management policy signals to credit rating agencies and the capital markets that a public entity is well managed and therefore is likely to meet its debt obligations in a timely manner. Debt management policies should be customized with attention to the issuer's specific needs. Debt management policies should be approved by the issuer's governing body and should provide credibility, transparency, and ensure that there is a common understanding among the rating agencies, capital markets, governing body, and IBank staff regarding the issuer's approach to debt financing.

Prudent debt management practices require that IBank staff periodically review and update debt management policies. IBank's existing Debt Management Policy was prepared in 2012 and approved by the Board with Resolution No. 12-11 (the "2012 Debt Policy"). In keeping with sound debt management practices, IBank recently completed a review of the 2012 Debt Policy. IBank's review indicated no substantive changes to the 2012 Debt Policy were necessary. The only changes to the 2012 Debt Policy reflected in the 2017 Debt Policy are non-substantive and/or ministerial revisions.

**DEBT MANAGEMENT BEST PRACTICES**

Information provided by the Government Finance Officers Association, as well as other sources consulted by IBank staff, including other State and local government debt management policies (collectively, "Debt Policy Reference Materials"), recommend that

state and local government entities adopt comprehensive written debt management policies, that reflect applicable local, state, and federal laws and regulations. The Debt Policy Reference Materials recommend that a public entity's debt management policy should be reviewed periodically (and updated if necessary) and should address the following broad policy areas:

1. Debt Limits, if applicable.
2. Debt Structuring Practices.
3. Debt Issuance Practices.
4. Debt Management Practices.
5. Use of Derivatives.

Further, the Debt Policy Reference Materials identify some of the key elements of a debt policy to include:

- Purposes for which debt may be issued.
- Legal debt limitations, or limitations established by policy.
- Types of debt permitted to be issued and criteria for issuance.
- Structural features that may be considered.
- Method of sale.
- Selection of external financial professionals.
- Refunding of debt.
- Disclosure (primary and secondary market).
- Compliance with federal tax law provisions, including arbitrage requirements where such compliance is not otherwise covered by written compliance policies.
- Integration of capital planning and debt financing activities.
- Investment of bond proceeds where otherwise not covered by explicit written law or written investment policy.

## **IBANK BONDS**

### **IBank Bonds – Direct Bonds**

In connection with IBank's Infrastructure State Revolving Fund ("ISRF") Program, the Bergeson-Peace Infrastructure and Economic Development Bank Act (Government Code Section 63000 and following) ("Act") authorizes IBank to, among other things, issue tax-exempt and taxable bonds to (1) fund IBank's Infrastructure State Revolving Fund Program ("ISRF Bonds"), and (2) reimburse the State of California ("State") for emergency loans made to, and/or to otherwise finance working capital needs of, financially troubled school districts through the State School Fund Apportionment Bond Program ("School Bonds", and together with the ISRF Bonds, "Direct Bonds"). For Direct Bonds, IBank is responsible for ensuring that such Bonds are issued prudently and in compliance with all federal and State laws. IBank is also responsible for ensuring compliance with post-sale disclosure obligations.

## **IBank Bonds – Conduit Bonds**

The Act also authorizes IBank to, among other things, issue tax-exempt and taxable bonds as a “conduit” on behalf of eligible entities, such as qualified non-profit organizations and qualified industrial manufacturers, as well as on behalf of other State agencies (“Conduit Bonds”). IBank issues Conduit Bonds on behalf of a borrower (“Borrower”) and then loans the proceeds to such Borrower. Thus, when IBank issues Conduit Bonds, the obligation to repay bondholders and the primary responsibility for adhering to federal tax laws, federal securities laws, and the bond documents is “passed on” to the Borrower.

## **2017 DEBT POLICY**

The purpose of the 2017 Debt Policy is to establish comprehensive guidelines for the issuance and management of IBank Direct Bonds and Conduit Bonds. The 2017 Debt Policy is intended to help ensure that: (i) IBank Board and IBank staff adhere to sound debt issuance and management practices; (ii) IBank achieves the most advantageous cost of borrowing while at the same time incurring only prudent levels of risk; and (iii) IBank maintains a sound debt position and preserves the credit quality of its Direct Bonds.

The 2017 Debt Policy attached as Exhibit A, covers Direct Bonds and Conduit Bonds, and is comprehensive in that it addresses the stated purpose, broad policy areas and applicable key elements recommended by the Debt Policy Reference Materials.

The 2017 Debt Policy is to be applied in conjunction with the Board approved (1) Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities, (2) Investment Policy, and (3) Post-Issuance Tax Compliance Policy, and to not supersede any of these policies.

Except as otherwise required by the Act or other State or federal law, the 2017 Debt Policy provides the Board with the discretion to exempt, waive, except, or add to any provision of the 2017 Debt Policy the Board deems appropriate. Additionally, the 2017 Debt Policy provides the Board may amend the policies set forth therein from time to time, directs IBank’s Executive Director and his/her assignees to periodically review the policy and recommend any changes to the Board, and directs the review of the 2017 Debt Policy at least once every five years.

## **RECOMMENDATION:**

Staff recommends adoption of Resolution 17-15 approving the 2017Debt Policy.

**ATTACHMENT A**  
**California Infrastructure and Economic Development Bank (“IBank”)**  
**2017 Debt Management Policy**



California Infrastructure and  
Economic Development Bank

# California Infrastructure and Economic Development Bank

## 2017 Debt Management Policy

~~December 11, 2012~~

September 26, 2017

# Table of Contents

---

<b>INTRODUCTION</b> .....	1
I. BACKGROUND.....	1
II. PURPOSE OF THE DEBT MANAGEMENT POLICY .....	1
III. GENERAL DEBT POLICY PRINCIPLES .....	2
<b>DIRECT BONDS</b> .....	3
I. EXECUTIVE DIRECTOR ROLE AND RESPONSIBILITY .....	3
II. PROFESSIONAL SERVICES .....	4
III. COMMUNICATION GUIDELINES.....	<a href="#">65</a>
IV. GUIDELINES FOR SALE OF DIRECT BONDS .....	6
V. TYPES OF DEBT .....	8
VI. DERIVATIVES .....	8
VII. OVERSIGHT AND COMPLIANCE .....	9
<b>CONDUIT BONDS</b> .....	9
<b>DEBT POLICY REVIEW</b> .....	10

# INTRODUCTION

## I. BACKGROUND

The California Infrastructure and Economic Development Bank (~~I-Bank~~) (“~~IBank~~”) was created in 1994 to finance public infrastructure and private development that promote a healthy climate for jobs, contribute to a strong economy and improve the quality of life in California communities. ~~The I-Bank~~ ~~IBank~~ operates pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act contained in the California Government Code Sections 63000 *et seq* (~~I-Bank~~) (“~~IBank~~ Act”). ~~The I-Bank or Act~~). ~~IBank~~ is governed by a five-member Board of Directors (~~“Board”~~) consisting of high level government officials, including one elected official and one Governor appointee.

~~The I-Bank~~ ~~IBank~~ has broad authority to issue tax-exempt and taxable revenue bonds, provide financing to public agencies, provide credit enhancements, acquire or lease facilities, leverage State and Federal funds and provide other types of financial assistance for economic development facilities, public development facilities and for other financial purposes that are authorized by law.

~~The I-Bank's~~ ~~IBank~~ current programs include:

- ~~Infrastructure State Revolving Fund (ISRF) Program~~
- ~~State School Fund Apportionment Bond (“ISRF Program (School Bonds Program)”)~~.
- ~~Qualified 501(e)(3) Revenue California Lending for Energy and Environmental Needs Center (“CLEEN Center”)~~
- Bond ~~Financing~~ Program<sup>1</sup>
- ~~Industrial Development Revenue Bond (IDB) Program~~
- ~~Exempt Facility Revenue Bond Program~~
- ~~Public Agency Revenue Bond (PARB) Program.~~
- ~~Small Business Finance Center (“SBFC”)~~<sup>2</sup>

Other programs may be added in the future.

## II. PURPOSE OF THE DEBT MANAGEMENT POLICY

The purpose of ~~the I-Bank's~~ Debt Management Policy (~~“Debt Policy” of the I-Bank~~) is to establish comprehensive guidelines for the issuance and management of ~~the I-Bank's~~ ~~IBank~~ bonds and other obligations for borrowed money, including revenue notes and commercial paper notes (collectively, ~~“Bonds”~~). This Debt Policy is intended to help ensure that: (i) the ~~I-Bank~~ ~~IBank~~ Board of Directors (~~“Board”~~) and ~~IBank~~ staff adhere to sound debt issuance and management practices; (ii) ~~the I-Bank~~ ~~IBank~~ achieves the most advantageous cost of borrowing ~~commensurate with~~ while at the same time accepting only prudent levels of risk; and (iii) ~~the I-Bank~~ ~~IBank~~ maintains a sound debt position and preserves the credit quality of its Direct Bonds.

---

<sup>1</sup> The Bond Financing Program includes 501(c)(3) conduit bonds, Industrial Development Bonds, Exempt Facility Bonds, and Public Agency Revenue Bonds. Included with Public Agency Revenue Bonds are State School Fund Apportionment Bonds.

<sup>2</sup> The Small Business Finance Center includes the Small Business Loan Guarantee Program, the State Small Business Credit Initiative, Jump Start Program, Farm Loan Program, Surety Bond Guarantee Programs, and the Disaster Loan Guarantee Program.

# CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK DEBT MANAGEMENT POLICY

Page 2

Bonds issued to fund ~~the I-Bank's own~~ IBank's programs (such as the ISRF Program) in which bond proceeds are used for its own programs are Direct Bonds. Certain bonds that are issued on behalf of another entity (~~("Borrower")~~) that is responsible for repayment of the obligation but for which the ~~I-Bank~~ IBank participates in the structuring and post-issuance bond administration on behalf of the Borrower (such as the School Bonds Program) are also considered Direct Bonds for purposes of this Debt Policy. Bonds issued on the behalf of, administered and repaid by a Borrower are conduit bonds (~~("Conduit Bonds")~~). Conduit Bonds include: Qualified 501(c)(3) Bonds, IDBs, Exempt Facility Bonds, Public Agency Revenue Bonds or other bonds issued on behalf of a Borrower.

This Debt Policy encompasses both Direct Bonds and Conduit Bonds.

~~The I-Bank~~ IBank intends for this Debt Policy to be applied in conjunction with ~~and, to the fullest extent possible, consistent with its~~ Board approved Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities, Investment Policy, and Post-Issuance Tax Compliance Policy, and to not supersede any of these policies.

~~The I Bank reserves the right to use its discretion as necessary and appropriate as circumstances warrant to exempt, waive, make exceptions or request additional provisions to the Debt Policy not otherwise required by law. The I-Bank also reserves the right to change this policy from time to time.~~

This Debt Policy provides the Board with the discretion to exempt, waive, except, or add to any provision deems appropriate and may amend the policies set forth therein from time to time, directs IBank's Executive Director and his/her assignees to periodically review the policy and recommend any changes to the Board, and directs the review of the Debt Policy at least once every five years.

## **III. GENERAL DEBT POLICY PRINCIPLES**

### **A. BOARD ROLE AND RESPONSIBILITY**

The Board shall:

1. Approve the Debt Policy, periodically review the policy and approve any amendments when determined necessary.
2. ~~Final approval of~~ Approve the terms and conditions for the issuance of Direct Bonds and Conduit Bonds.
3. Approve Direct Bond and Conduit Bond amendment documents not otherwise delegated to and performed by the Executive Director.

### **B. STATUTORY DEBT LIMITATIONS**

~~The I-Bank~~ IBank will comply with statutory limitations on the level of indebtedness for each of its programs. Pursuant to Government Code Section 63071(b), the maximum amount of bonds outstanding issued to finance public development facilities (defined in Government Code Section 63010(q)) shall not exceed \$5 billion, and the total amount of rate reduction bonds that may be outstanding at any one time shall not exceed \$10 billion dollars.

For programs that are not statutorily limited, the maximum level of indebtedness will be governed by available pledged revenue streams and rate covenants or additional bond tests contained in the legal documents.

### **C. FEDERAL TAX AND REGULATORY COMPLIANCE**

The ~~I-Bank~~Bank complies with all U.S. Internal Revenue Service (~~“IRS”~~), Municipal Securities Rulemaking Board (~~“MSRB”~~), and Securities and Exchange Commission (~~“SEC”~~) rules and regulations applicable to the issuance of Direct Bonds and Conduit Bonds.

## **DIRECT BONDS**

---

### **I. EXECUTIVE DIRECTOR ROLE AND RESPONSIBILITY**

The primary responsibility for Direct Bonds debt management rests with ~~the I-Bank's~~Bank's Executive Director and those senior members of ~~the I-Bank's~~Bank staff that the Executive Director assigns such responsibilities to (collectively, ~~“the Executive Director”~~). Pursuant to the ~~I-Bank~~Bank Act, and particularly Government Code Section 63024, the Executive Director has statutory authority, including, but not limited to, the ability to engage the services of public finance professionals such as legal counsel, financial advisors and technical advisors to assist ~~the I-Bank~~Bank in performing its duties. Additionally, Resolution No. ~~12-0816-07~~, adopted by the Board on ~~October 9, 2012~~March 22, 2016, authorized the delegation of certain Board powers to the Executive Director.

For Direct Bonds, the role of the Executive Director and his or her assignees typically involves the following:

1. Approve ~~of~~ the appointment of financial advisor, bond counsel, and other Direct Bonds service providers.
2. In consultation with financial advisor, bond counsel and ~~I-Bank~~Bank staff, determine the most appropriate structure, terms, conditions and method of sale for Direct Bonds and make recommendations to the Board as to such matters.
3. Provide for and participate in the preparation and review of all legal, offering and/or disclosure documents in connection with Direct Bonds.
4. Undertake to implement the issuance of Direct Bonds approved by the Board and do so at the most advantageous interest and other costs consistent with Board approval and prudent levels of risk.
5. Execute and deliver agreements or documents necessary or desirable in connection with the issuance of Direct Bonds.
6. In consultation with ~~the I-Bank's~~Bank legal counsel, ensure ~~I-Bank~~Bank compliance with any IRS, SEC, and MSRB rules and regulations applicable to the issuance of Direct Bonds.
7. Provide for the timely payment of principal of and interest on Direct Bonds.
8. Monitor opportunities to refund Direct Bonds and recommend ~~refundings~~refunding's to the Board, as appropriate.
9. In consultation with ~~the I-Bank's~~Bank legal counsel, ensure ~~I-Bank~~Bank compliance with the covenants and disclosures required by the legal documents governing the issuance of the Direct Bonds.
10. Distribute to appropriate repositories information regarding ~~the I-Bank's~~Bank's financial condition and affairs at such times and in the form required by law, regulation and general practice, including Rule 15c2-12 regarding continuing disclosure.
11. Provide for the distribution of pertinent Direct Bonds information to rating agencies, bond insurers, investment providers, and to the extent necessary, investors and other market participants prior to and subsequent to the issuance of Direct Bonds.
12. Ensure that ~~the I-Bank~~Bank maintains records required to be maintained in connection with the Direct Bond.

# CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK DEBT MANAGEMENT POLICY

Page 4

13. In accordance with Government Code Section 63071(b), and in consultation with ~~the I-Bank's~~I-Bank legal counsel, ensure ~~the I-Bank's~~ compliance with the statutory limit on the amount of bonds issued to finance public development facilities (as such term is defined in the ~~I-Bank~~I-Bank Act) that can be outstanding at any one time.
14. Apply and promote prudent ongoing ~~I-Bank~~I-Bank and Direct Bonds fiscal and administration practices.

## II. PROFESSIONAL SERVICES

~~The I-Bank~~I-Bank shall procure professional services as required to effect the issuance or refunding of Direct Bonds and to advise ~~the I-Bank~~I-Bank on other bond-related activities. Professional services may include consultants (financial advisor, special counsel, bond, disclosure and tax counsel) and other service providers (including, but not limited to, trustee, title or escrow agent, verification agent, underwriter, printer, arbitrage rebate service provider and credit enhancement provider).

### A. SELECTION PROCESS

Determining the need for and the selection of professional services firms to effect the issuance or refunding of Direct Bonds or for other bond-related activities is at the discretion of the Executive Director.

### B. FINANCIAL ADVISOR

~~The I-Bank~~I-Bank may appoint a financial advisor or advisors, from time to time, to assist in the issuance of Direct Bonds, and with matters relating to outstanding Direct Bonds. Assistance to be provided by the financial advisor may include, but is not limited to:

- monitor market opportunities for issuance of new money bonds;
- evaluate possible financing options;
- analyze the costs and risks of debt issuance;
- structure debt issuance;
- negotiate and review of bond documents;
- review of official statement;
- work with the State Treasurer's Office on pricing, including, in the case of a negotiated sale, advocacy to ensure the most cost effective transaction under current market conditions including interest rates, compensation and fees;
- monitor opportunities to refund ~~I-Bank~~I-Bank Direct Bonds debt; and,
- other bond-related activities.

### C. BOND COUNSEL

~~The I-Bank~~I-Bank shall retain the services of a nationally recognized firm in the area of public finance to act as Bond Counsel for the issuance of Direct Bonds. The firm selected as bond counsel will be expected to provide the full range of legal services required in connection with the successful issuance and delivery of the bond issues, including the provision of a written opinion affirming ~~that the I-Bank~~I-Bank is authorized to issue the proposed debt, that all constitutional and statutory requirements necessary for issuance have been met, and a determination of the federal income tax status. ~~The I-Bank~~I-Bank will ~~consult with~~select Bond Counsel from the State Treasurer's Office ~~prior to~~ "Bond Counsel selection Pool" list.

#### **D. DISCLOSURE COUNSEL**

In the determination of the Executive Director, in consultation with ~~the I-Bank's~~IBank General Counsel, where warranted, ~~the I-Bank~~IBank may engage the services of a Disclosure Counsel for the issuance of Direct Bonds. Disclosure Counsel shall be a firm with nationally recognized expertise in the area of public finance with the ability to render a customary "10b-5" negative assurance letter in connection with the issuance of Direct Bonds and with respect to the official statement or other disclosure document. ~~The I-Bank~~IBank will ~~consult with~~select Disclosure Counsel from the State Treasurer's Office ~~prior to Disclosure~~"Bond Counsel selectionPool" list.

#### **E. SPECIAL COUNSEL**

~~The I-Bank~~IBank may retain the services of special counsel to advise ~~the I-Bank on~~IBank with on-going legal issues related to its outstanding Direct Bonds and other bond-related activities.

#### **F. BOND TRUSTEE, TITLE OR ESCROW AGENT, TENDER AGENT, VERIFICATION AGENT, DISSEMINATION AGENT**

In the event that Direct Bonds are sold through a public offering, ~~the I-Bank~~IBank may appoint, as necessary, trustees, title or escrow agents, tender agents, verification agents, dissemination agents and other such parties to accomplish the public offering and sale of Direct Bonds.

#### **G. AGENT FOR SALE**

Pursuant to Government Code Section 63074, the State ~~Treasurer~~Treasurer's Office is designated as agent for sale of all Direct Bonds, if the Direct Bonds are sold as a negotiated or competitive sale, and for certain limited offerings.

#### **H. UNDERWRITER(S)**

The State Treasurer's Office, as agent for sale of all Direct Bonds, is responsible for selecting underwriter(s) if the Direct Bonds are sold in a negotiated sale and for certain limited offerings, or awarding the winning bidder in a competitive sale. The Executive Director and appropriate ~~I-Bank~~IBank staff shall coordinate with the State Treasurer's Office regarding underwriter(s) selection.

#### **I. CREDIT ENHANCEMENT PROVIDER**

To enhance the marketability of some Direct Bonds, the Executive Director with the assistance of ~~it~~his or her financial advisor will consider and may recommend to the Board the inclusion of credit enhancement instruments offered by credit enhancement providers such as bond insurers, surety policy providers, letter of credit providers, line of credit providers or other liquidity providers for the issuance of Direct Bonds.

#### **J. ARBITRAGE REBATE SERVICE PROVIDER**

Refer to the Post-Issuance Tax Compliance Policy for Tax-Exempt Bonds.

#### **K. INVESTMENT SERVICE PROVIDER**

Refer to the Investment Policy.

### III. COMMUNICATION GUIDELINES

The Executive Director and appropriate ~~I-Bank~~ staff are tasked with fostering good working relationships with credit rating analysts assigned to ~~the I-Bank's~~ Direct Bonds by nationally recognized credit rating agencies ~~(“Credit Rating Agencies”).~~ The Executive Director is also tasked, to the extent feasible, with fostering good relations with Direct Bonds investors and the general public.

Communication with the Credit Rating Agencies, investors and the general public shall include:

1. Disclosure of the financial condition of ~~the I-Bank~~, including timely dissemination of ~~the I-Bank's~~ annual financial report, following its acceptance by the Board.
2. When deemed appropriate, a presentation to the Credit Rating Agencies prior to a Direct Bonds issuance covering ~~I-Bank~~ financial, operational, and other issues important to obtaining a Direct Bonds rating.
3. Distribution of any documents pertaining to the sale of Direct Bonds.
4. Timely dissemination of any information required by the Credit Rating Agencies during periodic Direct Bonds credit rating surveillances.
5. Timely disclosure of any Direct Bonds post-issuance ~~I-Bank~~ financial or other events that may impact ~~the I-Bank's~~ Direct Bonds credit ratings.
6. To the extent practicable, communicate relevant ~~I-Bank~~ financial, operational and other information that may be important to potential investors and the general public.

### IV. GUIDELINES FOR SALE OF DIRECT BONDS

In accordance with ~~the I-Bank's~~ responsibility to establish the method and manner of sale of Direct Bonds, all Direct Bonds will be issued subject to the following guidelines.

#### **A. METHODS OF SALE**

The Executive Director with the assistance of the financial advisor shall determine the method of sale for Direct Bonds. The method of sale utilized shall be one that is reasonably expected to produce an advantageous interest cost, and provides the flexibility necessary or desirable in connection with the structuring, timing, or terms of such sale.

#### ***Conditions of Competitive Sale***

A Direct Bonds competitive sale may be appropriate under the following circumstances:

1. The bonds do not include any unusual call provisions or other terms.
2. The bonds are expected to be of relatively high credit quality.
3. Demand for the bonds is expected to be stable.
4. Prices in the municipal bond market are relatively stable.
5. Market timing is not critical to the pricing of the bonds.

Competitive sales may be conducted through internet-based or other electronic bidding systems.

#### ***Conditions of Negotiated Sale***

A. A Direct Bonds negotiated sale may be appropriate under the following circumstances:

1. The bonds include unusual call provisions or other terms.

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK  
DEBT MANAGEMENT POLICY

Page 7

2. Prices in the municipal bond market are relatively volatile.
3. Market timing is important to the pricing of the bonds.
4. The structure of the financing is complex or unusual.
5. Demand for the bonds is expected to be weak, as a result of credit issues, market perceptions, unusual structures, or other factors.

B. Pricing and Allocation of Negotiated Sales

The Executive Director, with the assistance of one or more financial advisors and the State ~~Treasurer~~ Treasurer's Office as agent for sale, shall evaluate the proposed pricing and other terms offered by the underwriter(s) in relationship to prevailing market prices on the date of sale and prevailing practices in the municipal bond market, in each case with respect to comparable issuances. If there are multiple underwriters, the State ~~Treasurer~~ Treasurer's Office, with the assistance of ~~the I-Bank's~~ I-Bank's financial advisor, will, among other things, establish appropriate levels of liability and participation among the underwriters, and the priority of orders.

Final Direct Bonds pricing terms and allocations will be consistent with the Direct Bonds terms and conditions approved by the Board, and will be based on prevailing terms and conditions in the marketplace for comparable issues. The Direct Bonds final pricing and outcome of such sale negotiations shall be incorporated in a bond purchase contract and is subject to Executive Director and State ~~Treasurer~~ Treasurer's Office final approval. The senior managing underwriter and/or the ~~I-Bank's~~ I-Bank financial advisor in conjunction with the State Treasurer's Office shall also provide ~~the I-Bank~~ I-Bank with a final pricing analysis promptly following the closing, including without limitation the results of comparable sales in the market at or near the time of ~~the I-Bank's~~ I-Bank's sale.

***Conditions of Private Placement***

When deemed appropriate to minimize the costs and risks of ~~the I-Bank's~~ I-Bank's Direct Bonds issue, the Executive Director may submit to the Board a recommendation to sell the Direct Bonds through private placement.

**B. STRUCTURE OF DIRECT BONDS**

**Maturity** - ~~The I-Bank~~ I-Bank shall issue Direct Bonds with a final maturity and average life that complies with state and federal laws and in keeping with prudent fiscal practices so that maturity is consistent with the life of the capital assets being financed.

**Reserve Fund** - ~~The I-Bank~~ I-Bank may issue Direct Bonds that are secured by amounts on deposit in or credited to a debt service reserve fund or account in order to minimize the net cost of borrowing and/or to provide additional reserves for debt service or other purposes. Debt service reserve funds may secure one or more issues of Direct Bonds, and may be funded by proceeds of the bonds, other available moneys of ~~the I-Bank~~ I-Bank, and/or by surety policies, letters or lines of credit or other similar instruments.

**Capitalized Interest Fund** - Direct Bonds capitalized interest is permitted when deemed appropriate.

**Tax Status** - Unless otherwise justified and deemed necessary, ~~the I-Bank~~ I-Bank shall issue Direct Bonds on a tax-exempt basis.

**Credit Ratings** - The Executive Director with the assistance of one or more financial advisors will determine if and how many credit ratings are recommended in association with a particular transaction.

### **C. REFUNDING SAVINGS THRESHOLDS**

~~The I-Bank~~IBank may issue Direct Bonds or use available cash to defease or refund the principal of and interest on outstanding Direct Bonds in order to achieve any of the following: (i) achieve debt service savings; (ii) restructure scheduled debt service; (iii) convert from or to a variable or fixed interest rate structure; (iv) change or modify the source or sources of payment and security for the refunded Direct Bonds; (v) modify covenants otherwise binding upon ~~the I-Bank~~IBank or (vi) restructure Direct Bonds that are in a state of distress due to market conditions, credit quality issues related to the credit enhancement provider or ~~the I-Bank~~IBank, or other issues. Refunding of Direct Bonds may be issued either on a current or advance basis, as permitted by applicable Federal tax laws. Refunded Direct Bonds may be cancelled or purchased and held in a trust, escrow or other manner.

An “advance refunding” Direct Bonds transaction will require a net present value savings of a minimum three percent (3%) of the principal amount of the debt being refunded, unless otherwise approved by the Board.

A “current refunding” transaction for Direct Bonds will not be subject to a minimum savings threshold.

### **V. TYPES OF DEBT**

**Fixed Rate Bonds** - Fixed-rate Direct Bonds shall be the preferred type of Direct Bonds issued by ~~the I-Bank~~IBank. This preference reflects a desire to fix future interest costs and to insulate Direct Bonds from interest rate risk whenever possible.

**Variable Rate Bonds** - Variable rate Direct Bonds may be another type of Direct Bonds issued by ~~the I-Bank~~IBank, when appropriate.

**Long-Term Bonds** - ~~The I-Bank~~IBank may issue Direct Bonds with longer-term maturities to amortize capital costs or other costs over a period commensurate with the expected life, use or benefit provided by the project, program or facilities financed from such Direct Bonds. Long-term Direct Bonds shall consist of Direct Bonds of an issue with a final maturity of 5 years or more.

**Short-Term Bonds** - ~~The I-Bank~~IBank may issue Direct Bonds with shorter-term maturities, including but not limited to, commercial paper and grant and revenue anticipation notes to provide (i) interim financing for capital projects in anticipation of the issuance of longer-term Direct Bonds and/or the receipt of grant or other moneys or (ii) to purchase, refund or otherwise ~~repair~~outstanding~~amend~~ Direct Bonds in the event that long-term markets are inaccessible, or for other purposes. Short-term Direct Bonds shall consist of Direct Bonds of an issue with a final maturity of less than 5 years.

### **VI. DERIVATIVES**

#### **Overview**

A derivative is defined as a financial arrangement the returns of which are dependent upon, or derived from, some underlying published index, interest rate, or rate of exchange; bond; or other asset, and includes (1) Interest Rate Swap Agreements, (2) Cap and Collar Agreements, and (3) Swap Options.

**Interest Rate Swaps** - An interest rate swap agreement provides that the issuer will pay the contracting party based upon a fixed or floating rate and will receive payments based upon a fixed or floating rate.

The floating rate will be reset at regular dates and is usually based on London Interbank Offering Rate (LIBOR) or other published index rates. The settlement is payment or receipt of the net amount or "spread" as provided under the terms of the swap agreement.

**Caps and Collars** - In addition to swap agreements, it may be necessary to reduce risk and exposure by limiting the yield, or spread, of the swap agreement. These limits, called collars, consist of a "cap" or maximum rate, and the "floor" or minimum rate that are agreed upon between the issuer and the contracting party.

**Swap Options** - The current sale of an option (future right) to enter into an interest rate swap on the call date. If the swap has value to the counterparty, it would exercise its right to enter into a swap. If the swap has no value to the counterparty, it will allow the swap to expire unexercised and the issuer retains the swap option premium and call option on underlying bonds. The swap option premium paid by the counterparty to the issuer represents the intrinsic value of the swap.

### **I-BankIBank Use of Derivatives**

Unless otherwise approved by the Board, derivative products will not be utilized for Direct Bonds.

## **VII. OVERSIGHT AND COMPLIANCE**

### **Disclosure and Continuing Disclosure**

The Executive Director, in consultation with legal counsel and the financial advisor(s) for the Direct Bonds shall make every effort to ensure that all I-BankIBank information provided for use in an official statement or other disclosure document is complete and accurate as of its date in accordance with the standards of securities and disclosure laws applicable to the I-BankIBank.

In connection with each Direct Bonds issuance and sale, the Executive Director shall also enter into a continuing disclosure agreement or otherwise provide undertakings for continuing disclosure sufficient to satisfy the requirement of SEC Rule 15c2-12, if applicable. ~~The I-BankIBank~~ recognizes the need to provide investors with timely access, on an ongoing basis, to information relating to the I-BankIBank or another Direct Bonds entity's financial condition and affairs. In accordance with the aforementioned continuing disclosure undertaking, the Executive Director will, cause the I-BankIBank and any other entity (such as a school district) on whose behalf the I-BankIBank has issued Direct Bonds to make such information available to the public at large and to the appropriate repositories in the form required by applicable law.

## **CONDUIT BONDS**

---

In the case of Conduit Bonds, the I-BankIBank acts as an issuer on behalf of another entity that is seeking to borrow the proceeds of I-BankIBank bonds (~~("Conduit Borrower")~~). For Conduit Bonds, the Conduit Borrower has the sole obligation for payment of debt service on such bonds and primary, if not sole, obligations for compliance with any post issuance tax requirements applicable to the Conduit Bonds. ~~The I-BankIBank~~ has no financial obligations for such Conduit Bonds.

In addition, for Conduit Bonds, the underwriter who initially purchases the Conduit Bonds (for resale to investors who are to become bondholders) is the party that evaluates the creditworthiness of the Conduit Borrower and the security offered, unless the bonds are sold as a private placement, in which case the bond purchaser evaluates the creditworthiness of the Conduit Borrower and the security

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK  
DEBT MANAGEMENT POLICY

Page 10

offered. Similarly for Conduit Bonds, a financial advisor selected by the Conduit Borrower is the entity that advises the Conduit Borrower on bond structuring matters such as debt service reserve funds, the use of derivatives, optional redemptions and other debt structuring matters.

~~Since the I-Bank~~ ~~I-Bank~~ does not assume responsibility for the administration or repayment of Conduit Bonds, it plays a very limited role in determining debt structuring practices, such as bond sizing, security and method of sale, that are the subject matter of this Debt Policy. As such, this portion of the Debt Policy confines itself to broad statements of ~~the I-Bank's~~ ~~I-Bank's~~ intent to ensure ~~I-Bank~~ ~~I-Bank's~~ adherence to its legal authority as set forth in the Bergeson-Peace Infrastructure and Economic Development Bank Act contained in the California Government Code Sections 63000 *et seq.* ~~(I-Bank~~ ~~(“I-Bank Act”).~~

Further, for Conduit Bonds, it is ~~the I-Bank's~~ ~~I-Bank's~~ intent to provide guidance as to its willingness to serve as a conduit issuer by setting forth its terms, conditions and practices in ~~the I-Bank~~ ~~I-Bank~~ Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities that are in effect as of the date that such Conduit Bonds are proposed to be issued.

Moreover, for Conduit Bonds, it is ~~the I-Bank's~~ ~~I-Bank's~~ intent to outline its post-issuance tax compliance practices in its ~~I-Bank~~ ~~I-Bank~~ Post-Issuance Tax Compliance Policy for Tax Exempt Bonds that is in effect as of the date that such Conduit Bonds are issued.

## DEBT POLICY REVIEW

---

The Executive Director shall periodically review this Debt Policy and recommend any changes to the Board for consideration. This Debt Policy, including any proposed changes or additions hereto, shall be presented to the Board at least once every ~~three~~ five years for review.