

RESOLUTION NO. 2018-38

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MARINA
APPROVING A DEBT MANAGEMENT POLICY

WHEREAS, pursuant to the provisions of section 8855(i) of the California Government Code that became effective on January 1, 2017, the issuer of any proposed state or local government debt is required to adopt local debt management policies concerning the use of debt and to determine that any proposed debt issuance is consistent with those local management debt policies; and

WHEREAS, the Successor Agency to the Marina Redevelopment Agency (the “Successor Agency”) intends to issue tax allocation bonds, and in connection therewith the City Council would like to adopt a debt management policy for the City of Marina (the “City”) that also would apply to the Successor Agency; and

WHEREAS, a debt management policy has been developed for the City and the City Council desires to adopt such policy.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MARINA hereby resolves as follows:

1. Debt Management Policy. The Debt Management Policy, in the form attached hereto as Exhibit A (the “Debt Policy”), is hereby adopted by the City Council. The Debt Policy has been developed to provide guidance in the issuance and management of debt by the City and its related entities and is intended to comply with section 8855(i) of the California Government Code. The main objectives of the Debt Policy 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.
2. Official Action. The Mayor, the City Manager, the City Finance Director and the City Clerk, and any and all other officers of the City, are hereby authorized and directed to take any actions and execute and deliver any and all documents as are necessary to comply with the Debt Policy adopted by this Resolution.
3. Effective Date. This Resolution shall take effect from and after the date of its passage and adoption.

PASSED AND ADOPTED by the City Council of the City of Marina at a regular meeting duly held on the 1st day of May 2018, by the following vote:

AYES: COUNCIL MEMBERS: Amadeo, Morton, O’Connell, Brown, Delgado

NOES: COUNCIL MEMBERS: None

ABSENT: COUNCIL MEMBERS: None

ABSTAIN: COUNCIL MEMBERS: None

Bruce C. Delgado, Chair

ATTEST:

Anita Sharp, Deputy City Clerk



City of Marina

DEBT MANAGEMENT POLICY

May 1, 2018

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City of Marina Debt Management Policy

I. Introduction

The purpose of the City of Marina (the “City”) Debt Management Policy (the "Policy") is to promote sound and uniform practices for issuing and managing bonds and other forms of indebtedness, to provide guidance to decision makers regarding the appropriate use of debt and other repayment obligations of the City and to comply with Government Code Section 8855(i), which requires local debt policies and became effective January 1, 2017

II. Policy Objectives

The Policy objectives are as follows:

- To help maintain the financial stability of the City by encouraging sound decision-making so that its long-term financing commitments are affordable and do not create undue risk or burden.
- To ensure that all debt is structured in order to balance the interests of both current and future taxpayers, ratepayers and other constituents of the City.
- To protect the City’s credit rating and minimize the City’s borrowing costs.
- To meet the requirements of state and federal law and regulation, including federal requirements regarding disclosure and compliance with tax-exemption rules.
- To incorporate best practices into the City’s issuance and administration of its indebtedness.
- To ensure that the City’s debt is consistent with the City’s planning goals and objectives and capital improvement program or budget, as applicable.
- Establish criteria that will protect the City’s financial integrity while providing a funding mechanism to meet the City’s capital needs.

III. Types of Financing Instruments

This Policy governs the issuance and management of all debt and lease financing activity by the City and its related agencies, including the Successor Agency to the Marina Redevelopment Agency, the Marina Joint Powers Financing Authority, Preston Park Sustainable Community Non-Profit Corporation and the Abrams B Non-Profit Corporation. As outlined by the California Debt and Investment Advisory Commission (CDIAC), there are various options or debt instruments to fund projects. The list below represents the most typically used debt vehicles and the general guidelines for their use.



- **General Obligation Bonds (Voter-approved indebtedness):** General Obligation bonds (G.O.) provide investors with the most secure credit and the City with the lowest cost of funds. The City can issue G.O. bonds with approval of 2/3 of those voting at an election. Such bonds would be repaid out of a supplemental property tax, levied based on the value of property to pay annual debt service. Proceeds from G.O. bonds are strictly limited for acquisition of land and the construction of improvements to real property. These bonds cannot be used for operating expenses or moveable equipment.

The City could also seek 2/3 approval of a parcel or other special taxes (levied on a basis other than assessed valuation) that could be used to secure or otherwise pay debt service on bonds.

- **General Fund lease obligations:** Long-term obligations secured by lease payments from a city's general fund do not require voter-approval under California law (based on court decisions interpreting the State Constitutional Debt Limit, which imposes certain requirements for debt specifically secured by property taxes). Lease obligations can take the form of publicly offered lease revenue bonds or certificates of participation or may take the form of financing leases that are privately placed with a bank. There is no legal limitation on the amount of such obligations a city can incur, although there are practical budget limitations of debt affordability. In addition, the structure of the obligation is subject to various conditions articulated in the case law that established this exception to voter approval.
- **Pension Obligation Bonds:** A city can incur other long-term obligation payable from general revenues that do not involve leases, including judgment obligation bonds and pension obligation bonds (POBs). The issuance of POBs assumes that the cost of borrowing will be less than the cost of amortizing the liability through regular pension contributions; any future consideration of such debt should carefully consider the market timing and pension-system reinvestment risk inherent in such transactions.
- **Cashflow borrowings:** The City can issue tax and revenue anticipation notes that are repaid out of current fiscal year revenues to smooth any temporary cash shortages. The City has not utilized this form of financing in the recent past.
- **Enterprise revenue debt:** Debt can be secured by a City's enterprise or special funds in the form of revenue bonds, certificates of participation, or State loans. 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, such as for a water system, sewer, electric, or airport. They are designed to be self-supporting through user fees or other special earmarked receipts or taxes and do not rely on the general taxing powers of the City.
- **Assessment and Mello-Roos special tax bonds:** The City can form assessment districts, with majority property-owner approval, to finance projects that provide special benefit to the property. Similarly, property-owners of undeveloped land can approve Mello-Roos special taxes or assessments to finance public improvements, generally referred to as land-secured debt.



- **Tax allocation bonds:** The City's former redevelopment agency had the power to issue bonds secured by the property tax-increment generated by its project areas, as well as enter into other debt-like obligations. With the dissolution of redevelopment, such new obligations can be incurred only for pre-existing enforceable obligations. The City, acting as the redevelopment agency's successor agency, can refund outstanding debt for savings. Enhanced Infrastructure Financing Districts (EIFD's) provide for tax increment financing but only utilizes the share of the general property tax of the sponsoring agency or agencies.
- **Conduit debt:** Cities can also issue tax-exempt bonds to lend the proceeds to certain non-profit corporations and to finance the development, acquisition and rehabilitation of certain multi-family rental projects. The interest on the bonds can be exempt from Federal and State taxation. In addition, there are various statewide authorities to facilitate such tax-exempt financing.

IV. Debt Management Responsibility

The Finance Director is authorized to perform the duties of debt management including being responsible for the following:

- Debt issuance and management.
- Working with the City Manager and other staff deemed appropriate in formulating the City's debt management plans, executing these plans, and ensuring appropriate debt management, including the activities described in Section XII, below.
- Providing the City Council with the analysis of debt issuance costs required by Government Code Section 5852.1.
- Keeping the City Council informed of the City's debt-related activities through informational reports, briefings, or workshops.

V. Uses and Limits on Indebtedness

Debt provides a tool for financing capital projects that are too large to accommodate as part of the annual budget, to share the cost of major improvements between current and future taxpayers or ratepayers and/or to accelerate the delivery of a project compared to funding on a pay-as-you-go-basis. On the other hand, debt service represents a fixed cost that often will compete with other expenditures in the City's budget and cannot be deferred in any given year. In order to achieve the proper balance in its use of debt, the City will follow the following policy goals.

Except to alleviate cash-flow timing issues within a fiscal year, the City will not use debt to finance operating expenses. The City may consider use of debt in the event of an extraordinary expense, such as the financing of a major judgment, or to restructure existing liabilities, such as with pension obligation bonds.

The City will plan for capital improvements and maintenance as part of its budgeting process, seeking to set funds aside as possible, in advance of need. The underlying



approach of the City is to borrow only for capital improvements that cannot be funded on a pay-as-you-go basis. Typically these are large capital investments such as property acquisition, new building construction, facility renovation, rehabilitation or replacing major assets.

Prudent amounts of debt can be an equitable and cost-effective means of financing major infrastructure and capital project needs. The City will evaluate the benefit and risks of each proposed issue of new debt on a case-by-case basis, considering such factors as the City's overall fiscal health, the potential impact of increased debt service on current service levels and other long-term considerations. In general, debt may be considered to finance such projects if some or all of the following conditions exist:

- It meets the City's goal of distributing the payments for an asset over a substantial portion of its useful life so that benefits more closely match costs for both current and future residents.
- The need for the project is compelling in terms of on-going cost savings or the needs for public safety or services, and the size of the project makes funding out of existing resources or near-term revenues impractical.
- Estimated future revenue is sufficient to ensure the payment of annual debt service.
- Other financing options have been explored and are not viable for the timely or economic acquisition or completion of a capital project.
- The capital project or asset lends itself to debt financing rather than pay-as-you-go funding based on the expected useful life of the project.
- Debt will not be used to fund ongoing operating expenses of the City except for situations in which cash flow problems arise and the City may need to issue short-term Tax or Revenue Anticipation Notes.
- Annual debt service shall not exceed 10 percent of annual operating expenses for the General Fund unless an exception is approved by City Council. Debt that is backed by the General Fund but expected to be paid out of other revenues may be deducted from this calculation, provided that the City has a demonstrated track record of collecting such revenues, net revenues after operating expenses provide reasonable coverage over debt service and the City expects that the available revenues will be at least sufficient to cover debt service for the remaining life of the obligations.
- The City may consider indebtedness secured by its special revenue funds in those instances where large capital investment is required and the use of debt allows for a pattern of smooth rate increases over time. At the time of issuance of new debt, the City must be able to meet debt service coverage requirements based on rates which are in place and not subject to further approval by the City Council

VI. Method of Sale

Debt can be sold at a "public offering" through the sale of bonds, either through a competitive or negotiated sale, or through a private placement with a bank or other institution. The best method of sale depends on the type of security, credit factors, and



market conditions. The basis for the recommendation for the method of sale will be included in any staff report recommending the approval of any such new debt obligations.

The City will consider privately placing its debt for small and/or short-term borrowings or in instances where difficult credit or disclosure considerations or other special circumstances so warrant.

VII. 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 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 so as to satisfy the federal tax law requirements for reimbursement bonds.

VIII. Financing Professionals

The Finance Director, in consultation with 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.

A. 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



Finance Director will determine whether to select another law firm to provide the services of disclosure counsel or to assign such duties to bond counsel.

B. Financial Advisor

The municipal financial 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 financial advisor on all publicly offered or privately placed debt issues.

C. 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.

D. Trustee

The Finance Director 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.

IX. Structuring Debt Financing

A. Term and Structure

Long-term debt financing of capital projects will be amortized over a period no longer than the useful life of the assets being financed, and in no event should exceed thirty years.

Debt service will generally be structured to be level over the length of the bonds. Alternate debt structures may be used to wrap new debt around existing debt to create overall level debt service or to achieve other financial planning goals appropriate to the specific project.

The dates for which debt service is scheduled (typically semi-annually) will take into account the cashflows of the revenues that will service such debt.

B. Debt Service Reserve Fund

To the extent required by the market or where the additional costs is less than the debt service savings afforded by a higher rating, the City may fund a debt service fund out of bond proceeds no greater than the amount allowed under federal tax law.



C. Capitalized Interest

Funding interest payments out of bond proceeds during construction is required for a lease revenue obligation where the leased asset is the project being financed. The City will consider leasing an existing municipal asset (an “asset transfer”) in order to reduce or eliminate the need to capitalize interest. In other occasions, the City will consider capitalizing interest when it is appropriate to begin the payment of debt service after project completion.

D. Variable Rate Debt

To maintain a predictable debt service burden, the City will give preference to debt that carries a fixed interest rate. It may be appropriate to issue variable rate debt to diversify the City’s debt portfolio, provide greater prepayment flexibility or improve the match of variable-rate assets (investments in the City’s treasury) to liabilities. The City's cost for administering variable rate debt, including the renewal or replacement of bank facilities, should be considered when comparing fixed and variable rate debt. Prior to issuing variable rate bonds, the City shall amend or supplement this Policy to further address variable rate considerations.

E. Credit Ratings

The Finance Director, in consultation with the Financial Advisor and other members of the financing team, will evaluate and make recommendations regarding the number of credit ratings to seek on any given bond issue. The City will work to maintain its ratings and to increase ratings when the opportunity to do so exists. The Finance Director will periodically communicate with the agencies rating the City’s debt so that they will remain well-informed.

F. Credit Enhancement

The City will consider the use of credit enhancements such as bond insurance on a case-by-case basis. The cost-benefit of insurance will be evaluated through the final maturity and through the first optional call date, recognizing that municipal bonds are commonly refunded prior to maturity. The City will consider the use of a surety policy in lieu of a cash funded reserve, but in doing so will consider estimated earnings on a cash funded reserve and the cost of replacing that surety at the time of a potential refunding, if applicable.

G. Derivatives

The City will not use interest rate swaps in connection with its debt program unless a separate swap policy is prepared and approved by Council. The City may use derivative-like investment products to invest bond funds, but only upon staff’s analysis of the investment as part of the staff report transmitting the financing and specific approval as part of the Council action.



X. Disclosure

It is vital that the City take efforts to ensure that initial disclosure documents such as Official Statements and its continuing disclosure documents (discussed below) do not contain any material misstatements or omit to state information material to prospective investors in connection with their decision to purchase obligations of the city and its affiliated agencies. To ensure that these documents are accurate and comply with all applicable federal and state securities laws and promote best practices, the City will undertake the following:

- For all public sales of debt, the City will retain the services of disclosure counsel (who may also serve as bond counsel) to prepare the Official Statement to be used in connection with the offering and sale of debt. Use of disclosure counsel may also be appropriate in private placements in some circumstances.
- The City will assemble a disclosure working group, which will include the City Manager, the Finance Director, the City Attorney and any other individuals as determined by the City Manager appropriate for the transaction. The working group will review the disclosure document to ensure that it is accurate and does not fail to include information that such staff and officials think might be material to an investor. A Preliminary Official Statement will be released to the market only after the completion of the "due diligence" meetings with appropriate staff and approval in form by the City Council.
- The City Manager shall ensure that Finance Director and other members of the disclosure working group are properly trained to understand and perform their responsibilities. Such training may include training sessions conducted by consultants with expertise in municipal securities disclosure or by attendance at conferences.

XI. Refunding Bonds

In order to provide for the potential for refunding its bonds in the future, and absent compelling reasons to the contrary, the City will structure its bond issues with an optional call no longer than ten years from the date of issuance. Such compelling reasons to deviate from this policy would be a taxable bond issue, where the additional interest cost required for an optional call may outweigh the likely benefits. When structuring its bond issues, the City will take into account the coupon structure of its debt (i.e., discount bonds or premium bonds that mature after the call date) and its impact on its option to execute a refunding.

The City will periodically review its outstanding debt portfolio to identify opportunities to achieve net economic benefits from refunding its bonds. Recognizing that the City's ability to refund its debt is limited, because of federal tax law constraints on advance refundings and the market practice of making most fixed-rate bond issues non-callable for their first ten years, the City will seek to deploy its refunding options prudently. At a minimum, the City will seek to achieve net present value ("NPV") savings equal to at least three percent (3%) of the par amount of the bonds that are refunded. A higher threshold may be



warranted if the City doesn't receive 100% of the savings benefit (such as when refunding tax allocation bonds) and/or if it must incur significant non-contingent costs relative to the potential savings. Other factors that may be considered are the length of the period before the call date (the longer the period the higher the savings target should be), the length of time after the call date (savings are more difficult to realize for a short maturity, and thus the target could be lower), and any other factors that assist in considering the value of a call option.

When it is practical to consider a partial refunding (i.e., of less than all of a bond issue), the analysis will be performed on a maturity-by-maturity basis.

The City may also consider a refunding for a non-economic purpose, including the retirement of an indenture for more desirable covenants, a change in tax status, or to change the type of debt instrument.

XII. Debt Administration

The Finance Director and his or her staff shall be responsible for ensuring that the City's debt is administered in accordance with its terms, federal and State law and regulations, and best industry practices.

A. Tax-Exemption

Tax-exempt bond issues are subject to various IRS rules and regulations regarding the use of bond proceeds. The City will take actions as necessary to ensure compliance with tax law requirements applicable to each of the City's tax-exempt issues, and will periodically review and will comply with the specific post issuance compliance procedures identified in the tax documents for its tax-exempt financings.

- The City will ensure, when issuing its debt, that it has reasonable expectations that it will spend the proceeds within three years, unless an exception to this requirement has been identified and documented in the financing's tax certificate.
- The City will make sure that the use of facilities financed with tax-exempt bonds are not used for ineligible private activities, and will consult with bond counsel whenever it identifies a change in use, enters into a long-term contract involving the project, or otherwise undertakes an action that could change the tax-exempt status of its bonds.
- The City will retain an arbitrage rebate consultant to assist in calculating any earnings on bond proceeds in excess of the rate on its bonds, to calculate whether arbitrage should be rebated to the Federal Government, and to make timely and accurate return filings

B. Continuing Disclosure

Under the Securities and Exchange Commission Rule 15c2-12, the City is required on an ongoing basis to provide certain financial and operating data to those who own or are interested in purchasing the City's bonds and other securities. The City has entered into



various continuing disclosure agreements and will be required to enter into them with new bond issues. The agreements require the filing of certain annual reports and certain notices of material events. The Finance Director will be responsible for compiling and filing such reports and any event notices, which includes monitoring the date by which the reports must be filed, the contents that need to be included, event notices that must be filed, and the dates by which event notices are required to be filed. The Finance Director may retain a consultant to assist in meeting this obligation.

The Finance Director, directly or through its disclosure consultant, will be responsible for the timely filing with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") web site of the City's Annual Financial Statements and any other required reports; the filing of notices of the material events set out in the Continuing Disclosure Certificates; and the filing of any voluntary disclosures deemed material.

It should be noted that the Abrams B Non-Profit Corporation adopted its own continuing disclosure policies and procedures in 2016.

C. Investment of Bond Proceeds

Investments of bond proceeds shall generally be consistent with the City's Investment Policy as modified from time to time, and with the requirements contained in the governing bond documents. Whenever investment agreements are used in connection with a tax-exempt bond issue, the City will consult with legal counsel to ensure that these investments are consistent with the requirements of Federal tax law.

XIII. Relationship of Debt to Capital Improvement Program and Budget

The City is committed to long-term capital planning. The City may issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the City's capital budget component of its annual budget. The City shall integrate its debt issuances with the goals of its capital improvement program by considering when projects are needed when determining the timing of debt issuance.

The City shall seek to avoid the use of debt to fund recurring infrastructure and facilities improvements in circumstances where the primary purpose of such debt financing is to reduce expenditures in a given annual budget. The City shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues.

XIV. Internal Control Procedures

When reasonable, 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 proper approval from those authorized.



XV. Conclusion

This Policy is intended to guide and regulate the City's issuance and administration of debt. This policy should be reviewed and updated periodically to reflect changes in the market, the identification of other best practices, and to incorporate the City's own experience or changing circumstances.

While adherence to this Policy is generally required, it is recognized that changes in the capital markets, the City's needs and other unforeseen circumstances may from time to time produce situations that are not covered by the Policy or will require modifications or exceptions to best achieve the City's overall goals.



April 25, 2018

Item No. **8f(1)**

Honorable Mayor and Members
Of the Marina City Council

City Council Meeting
May 1, 2018

**CITY COUNCIL TO CONSIDER ADOPTING RESOLUTION NO. 2018-,
APPROVING CITY DEBT MANAGEMENT POLICY**

REQUEST: It is requested that the City Council:

1. Consider adopting Resolution No. 2018-, approving a new City Debt Management Policy, as now required by State Law prior to issuing bonds.

BACKGROUND AND ANALYSIS:

A relatively new State law (SB 1029) requires that the City adopt a debt management policy covering certain items. The financial advisor on the upcoming Marina Dunes tax allocation bond issue, KNN Public Finance, with input and review by the City's general financial advisor Fieldman Rolapp, has helped the City draft a policy that incorporates best practices in this area.

The policy would cover debt issued by the City, Successor Agency of the Former Marina Redevelopment Agency, and City's joint powers financing authorities. It includes the various items required by SB 1029, as well as other features that are consistent with best practices in debt administration. The policy sets forth numerous objectives, describes the various types of debt the City might consider and certain conditions for their use, describes the responsibilities of the City and its staff in issuing and administering debt, discusses the use of outside professionals, and provides guidance in structuring, issuing and refunding debt.

This debt management policy is submitted for Council approval **prior** to its consideration, as the Successor Agency of the Former Marina Redevelopment Agency, of the final approvals for the issuance of tax allocation bonds.

FISCAL IMPACT:

Adoption of the policy has no immediate fiscal impact.

CONCLUSION:

This request is submitted for City Council consideration and possible action.

Respectfully submitted,

Lauren Lai, CPA
Finance Director
City of Marina

REVIEWED/CONCUR:

Layne P. Long
City Manager
City of Marina