

RESOLUTION APPROVING REVISIONS TO HACLA'S DEBT MANAGEMENT POLICY TO UPDATE, CLARIFY AND EXPAND HACLA'S MULTIFAMILY AND OTHER HOUSING FINANCING OPPORTUNITIES

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Purpose: Revisions to the Debt Management Policy (the "Original Policy") of the Housing Authority of the City of Los Angeles ("HACLA" or the "Authority") are necessary to clarify portions of the current debt management policy established in 2017 and to expand the range of legally permissible debt financings in which HACLA may engage, all in the furtherance of expanding the supply of affordable multifamily and other housing in the City of Los Angeles ("City").

Regarding: Resolution No. 9404, adopted on December 19, 2017, which established the Original Policy.

Resolution No. 9455, adopted on September 27, 2018, which established HACLA's Housing Conduit Debt Policy.

Resolution No. 9587, adopted on April 23, 2020, which restated HACLA's Acquisition and Disposition of Real Property Policy.

Resolution No. 9729, adopted on August 26, 2021, which authorized the solicitation process for innovative developer, investment, acquisition and other partnerships to expand the affordable housing portfolio of HACLA.

All debt financings or exceptions to the new policy ("New Policy") will continue to require an authorizing Resolution approved by the Board of Commissioners ("Board"). In addition any other Board approval requirements contained in the New Policy are unchanged from the Original Policy.

Issues: As an organization whose primary function since inception is the development and preservation of affordable housing in the City of Los Angeles, it is critical that HACLA have a flexible and current Debt Management Policy. The New Policy represents the first revision of the Original Policy and i) clarifies the responsibilities of staff, ii) expands upon the legally permissible methods and types of debt that HACLA may issue and iii) integrates a broader range of affordable housing initiatives that are currently accepted in the financial markets.

The New Policy is drafted to continue to be compliant with applicable law, identify policy goals and demonstrate a commitment to long-term financial planning. Debt

issuance tax and legal compliance requires the adoption of a sound debt management policy, and such policies may be reviewed by relevant state financing agencies, federal tax audit agencies, credit rating agencies and financing teams when the Authority issues any type of debt or undertakes a public financing.

The New Policy specifies the objectives and guidelines for the issuance and administration of HACLA debt and the related HACLA instrumentalities for which the governing body consists only of members of HACLA's Board of Commissioners.

HACLA is authorized to operate in the City of Los Angeles pursuant to the Housing Authorities Laws, at Part 2 of Division 24 of the California Health and Safety Code (the "Law"). HACLA's authority under the Law also expressly authorizes housing authorities to issue taxable or tax-exempt revenue bonds for the purpose of financing the acquisition, construction, rehabilitation, refinancing, or development of multifamily rental housing and for the provision of capital improvements in connection with and determined necessary to the multifamily rental housing. Further, HACLA has the power to issue bonds for any of its corporate purposes as well as conduit debt.

The guidelines of the New Policy will govern HACLA debt incurred for affordable, mixed-income, and market rate housing developments, real estate acquisition financings, long-term capital financings, and any other lawful purposes. Excluded from the New Policy are activities that pertain to the financing of general operating functions (i.e., routine functions) and conduit debt. For conduit debt, the governing debt policy is HACLA's Housing Conduit Bond Policy.

The New Policy will also govern debt incurred for property acquisitions executed through partnership interests but only where HACLA is the majority owner of the property. Such partnership interests include, but are not limited to, (i) large-scale acquisitions of restricted and unrestricted multifamily and related properties or portfolios; and (ii) development partnerships where HACLA or its instrumentality are either the Managing General Partner ("MGP"), Administrative General Partner ("AGP"), or Special Limited Partner ("SLP"). The proposed revisions above constitute the most substantive changes proposed in the New Policy. These revisions are necessary to update the Original Policy to align with HACLA's acquisitions. The balance of the revisions in the New Policy consist of greater specificity regarding staff responsibilities and the delegation of authority, clarifications of some original text, the repositioning of a few paragraphs, and dozens of formatting changes.

Vision Plan: Place Strategy 2.3. Increase Functionality and effectiveness of Asset Management Portfolio.

This strategy focusses on the strategic directive of HACLA's Board to (i) diversify the housing portfolio by acquiring properties on the open market or from other governmental entities, thereby increasing the supply of affordable housing within the City of Los Angeles, (ii) diversify funding/revenue sources for HACLA, and (iii) build upon the innovative and strategic initiatives of HACLA.

Place Strategy 3. Improve and expand Section 8 program, policies, and efficiencies.

This strategy involves the acquisition of property for the purpose of generating the greatest possible number of readily available housing units for Section 8 Housing Choice Voucher participants.

Funding: The Chief Administrative Officer confirms the following:

Source of Funds: No funding is required for this action.

Section 3: Not applicable.

Attachments:

1. Resolution
2. Proposed revised Debt Management Policy (Redline)
3. Proposed revised Debt Management Policy (Clean)

ATTACHMENT 1

RESOLUTION

RESOLUTION NO. _____

RESOLUTION APPROVING REVISIONS TO HACLA'S DEBT MANAGEMENT POLICY TO UPDATE, CLARIFY AND EXPAND HACLA'S MULTIFAMILY AND OTHER HOUSING FINANCING OPPORTUNITIES

WHEREAS, the Housing Authority of the City of Los Angeles ("HACLA") is a public body, corporate and politic, duly created, established and authorized to transact business and exercise powers under and pursuant to the provisions of the Housing Authorities Law, Sections 34200 et seq. of the California Health and Safety Code (the "Act"), including the power to provide financing for the acquisition, construction, rehabilitation and equipping of multifamily rental housing for persons and families of low to moderate income;

WHEREAS, HACLA is further authorized under the Act to issue bonds, notes, interim certificates, debentures, or other obligations for any of its corporate purposes and to make and execute contracts and other instruments necessary or convenient for the exercise of its powers, including but not limited to the issuance of (i) revenue bonds for the purpose of financing the acquisition construction, rehabilitation, refinancing, or development of multifamily rental housing and for the provision of capital improvements in connection with and determined necessary to the multifamily rental housing, (ii) issue bonds for any of its corporate purposes, (iii) tax-exempt revenue bonds for the purpose of lending the proceeds to nonprofit organizations exempt from federal income taxation pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, for use by the organization to finance the acquisition, construction and rehabilitation, refinancing, or development of multifamily rental housing;

WHEREAS, prudent and fiscally responsible debt management is an essential component to furthering HACLA's mission to expand and preserve affordable housing;

WHEREAS, on December 19, 2017, the Board adopted Resolution No. 9404, establishing HACLA's Debt Management Policy (the "Original Policy") to comply with Government Code Section 8855(i), to conduct debt issuances after January 1, 2017, and to ensure debt is issued and managed prudently in accordance with sound fiscal policy; and

WHEREAS, HACLA now wishes to revise the Original Policy with a new policy ("New Policy") to (i) properly integrate the current property acquisition and strategic partnership initiatives of HACLA with its debt policies, (ii) clarify portions of the Original Policy, including the roles and responsibilities of staff, and (iii) expand the purposes of HACLA debt issuance to all legally permissible areas, including mixed income and market rate housing, real estate acquisitions, long-term capital financings, and all categories of affordable housing, and all in the furtherance of expanding the supply of affordable multifamily and other housing in the City.

NOW, THEREFORE, BE IT RESOLVED that the Board of Commissioners hereby adopts the proposed New Policy with any additional non-substantive revisions that may be desired by the President & CEO from time-to-time as approved by HACLA legal counsel.

BE IT FURTHER RESOLVED that this Resolution shall take effect immediately.

APPROVED AS TO FORM

HOUSING AUTHORITY OF THE
CITY OF LOS ANGELES

By: _____
James Johnson, General Counsel

By: _____
Cielo Castro, Chairperson

DATE ADOPTED: _____

ATTACHMENT 2

PROPOSED REVISED DEBT MANAGEMENT POLICY
(REDLINE)

HOUSING AUTHORITY OF THE CITY OF LOS ANGELES

DEBT MANAGEMENT POLICY

I. INTRODUCTION

The Debt Management Policy (“Policy”) of the Housing Authority of the City of Los Angeles¹ (~~the “HACLA Authority”~~) ~~Debt Management Policy (this “Policy”)~~ establishes objectives and guidelines for the issuance and administration of debt and other financing obligations of ~~the Authority~~HACLA and related entities for which the governing body consists only of some or all of the members of HACLA’s~~the Authority’s~~ Board of Commissioners. ~~“HACLA Authority”~~ shall mean HACLA~~the Authority~~ and/or ~~the Authority~~HACLA and its related ~~entities, as context may require~~instrumentalities and component units.

HACLA is authorized to operate in the City of Los Angeles pursuant to the Housing Authorities Laws, at Part 2 of Division 24 of the California Health and Safety Code (the “Law”).¹ HACLA’s authority under the Law expressly includes the authority to issue bonds in the City. HACLA’s authority under the Law also expressly authorizes housing authorities to “issue revenue bonds for the purpose of financing the acquisition construction, rehabilitation, refinancing, or development of multifamily rental housing and for the provision of capital improvements in connection with and determined necessary to the multifamily rental housing.”² Further, HACLA has the power to “issue bonds for any of its corporate purposes.”³

Except for the exclusions cited below, the guidelines established by this Policy govern the balance of HACLA debt incurred for affordable, mixed-income, and market rate housing developments, real estate acquisition financings, long-term capital financings, and any other lawful purposes. This Policy will also govern debt incurred for property acquisitions executed through partnership interests, as permitted under HACLA’s revised and restated Acquisition and Disposition of Real Estate Policy (the “Acquisition Policy”). Such partnership interests include, but are not limited to, (i) large-scale acquisitions of restricted and unrestricted multifamily and related properties or portfolios; and (ii) development partnerships where HACLA or its instrumentality are either the Managing General Partner (“MGP”), Administrative General Partner (“AGP”), or Limited Partner (“LP”).

In cases which require exceptions to this Policy, approval from HACLA’s Board of Commissioners will be necessary for implementation. In addition, all debt issuances must be approved by a Resolution adopted by HACLA’s Board of Commissioners.

Excluded from this Policy are (i) activities that pertain to the financing of general operating functions; and (ii) conduit debt. In the case of conduit debt, the governing debt policy is HACLA’s Housing Conduit Bond Policy (the “Conduit Bond Policy”).

¹ See CA HSC Division 24, Part 2, Chapter 1, Sections 34200-34606.

² See CA HSC Division 24, Part 2, Chapter 1, Section 34312.3(a)(1).

³ See CA HSC Division 24, Part 2, Chapter 1, Section 34350(a).

~~This Policy is intended to ensure consideration and compliance with applicable law, provide justification for the structure of debt issuance, identify policy goals, and demonstrate a commitment to long-term financial planning. Adherence to a debt management policy signals to rating agencies and the capital markets that a public body is well managed and should meet its obligations in a timely manner.~~

~~The guidelines established by this Policy will govern the issuance and management of all debt incurred for affordable housing development, real estate financing transactions, and long-term capital financing needs, but not for general operating functions. The Authority recognizes that changes in the capital markets and other unforeseen circumstances may require action which may deviate from this Policy. In cases which require exceptions to this Policy, approval from the Authority's Board of Commissioners will be necessary for implementation. In addition, all debt issuances must be approved by a Resolution adopted by the Authority's Board of Commissioners. The Authority will keep outstanding debt within the limits of applicable law and at levels consistent with its credit worthiness objectives.~~

II. GOALS AND OBJECTIVES

~~This section of this Policy sets forth certain equally important goals and objectives for the Authority [HACLA](#) and establishes overall parameters for responsibly issuing and administering the Authority [HACLA](#)'s debt. Additionally, this Policy is intended to facilitate compliance by the Authority, and is consistent with, Section 8855(i) of the California Government Code as amended by SB 1029 ("SB1029"), effective on January 1, 2017, as may be amended from time to time.~~

The goals and objectives of the [HACLA](#) Authority's debt are:

- ~~• To finance any of the following as permitted under the Law (i) the acquisition, construction, rehabilitation or preservation of housing properties comprised of affordable, mixed-income, or market-rate dwelling units; housing and (ii) capital projects; ~~including cost-effective~~ (iii) debt refundings, in a timely, responsible and cost-effective manner; ~~considering market conditions and projected cash flows~~~~
- To minimize both debt ~~service~~ repayment obligations and debt issuance costs
- To maintain market access that can facilitate ~~to~~ cost-effective borrowing and the lowest possible interest cost;
- To achieve and maintain the highest reasonable stand-alone, long-term credit rating and lowest possible interest cost for ~~each~~ debt financing (when applicable);
- To allow for full and timely repayment of debt obligations, including scheduled debt payments and advance refundings;
- To preserve financing flexibility leading to an enhanced capacity to facilitate all funding requirements for and to meet current and future capital facilities, funding and affordable housing development and redevelopment requirements activities;
- ~~• To maintain a policy of full and open disclosure in conjunction with all debt financing transactions~~
- ~~• To maintain compliance with financial disclosure and reporting undertakings~~
- To maintain ~~ensure~~ compliance with state and federal laws; and
- To ensure the integrity of the debt management process. _

This Policy is also intended to facilitate compliance with Section 8855(i) of the California Government Code as amended by SB 1029 ("SB1029"), effective on January 1, 2017, as may be amended from time to time.

III. DELEGATION OF AUTHORITY

The President & Chief Executive Officer ("CEO"), through designated staff ~~including the Chief Administrative Officer ("CAO") and others~~members, is responsible for the financial affairs of ~~the Authority~~HACLA. This Policy grants the President & CEO, and his/her designee(s), ~~the authorization~~ to select the debt financing team (~~the~~ "Financing Team"), coordinate the administration and issuance of debt, communicate with the credit rating agencies, ~~as well as to fulfill and to disseminate~~ all the pre-issuance and post-issuance disclosure information, all in compliance with applicable law.

The typical Financing Team consists of one or more of the following:

1. **Municipal Advisor**

- Assists with capital planning and long-term financial planning;_
- Coordinates the financing and debt issuance process;_
- Helps evaluate underwriter proposals and provides financial analysis and recommendations;_
- Reviews and provides advice on project-related debt and investor structure and terms;_
- Reviews all other project-related debt and equity documents to ensure there are no conflicts with the debt policy and material terms of the bond;_
- Assists with the securing of other professional services and other members of the Financing Team;_
- Monitors and evaluates market conditions for opportunities to issue debt at low interest rates;_
- Works with HACLA~~the Authority~~ and underwriter to develop investor outreach and market approach;_
- Helps to manage competitive bid processes, as applicable;_ and
- Ensures negotiated prices are "fair" and reasonable in the marketplace._

2. **Bond Counsel**

- ~~Prepare an approving legal opinion~~
- Provides_ expert and objective legal opinions_ and advice;_
- Provides_ assistance as necessary with preparing and/or reviewing Board of Commissioners' Resolutions and corresponding Board Reports;_
- Prepares_ and reviews_ documents necessary to authorize the, issue, sale and delivery of the bonds, as well as coordination of the authorization and execution of closing documents;_
- Reviews_ legal issues relating to the structure of the bond issue;_
- ~~Review or p~~Prepares_ those sections of the preliminary and final official statements_ that relate to the bonds, financing documents, bond counsel

opinion, and tax exemption, and reviews the entire documents before printing and release to investors;

- Assists ~~the Authority~~ HACLA in presenting information to bond rating organizations, insurers, and credit enhancement providers relating to legal issues affecting the issuance of the ~~bonds~~ debt;
- Reviews ~~the notice of sale or~~ bond purchase contract for the bonds and reviews other underwriting documents and the continuing disclosure undertaking of ~~the Authority~~ HACLA; and
- Provides ~~p~~ Post-issuance advice regarding the use of proceeds, ~~for~~ bond covenants s and, if applicable, tax-exemption compliance. _

3. **Disclosure Counsel (as needed)**

- Prepares s the 10b-5 opinion certificates and opinion letter; _
- Prepares s, reviews s, and maintains s drafts of preliminary and final official statements and continuing disclosure documents as needed; and
- Assists s as needed with filings made with the Municipal Securities Rulemaking Board's (MSRB) Electronic Municipal Market Access (EMMA) website and other websites. _

4. **Underwriter/Placement Agent**

- Provides s ~~the Authority~~ HACLA with ~~market knowledge~~ debt market conditions, trends, and debt structures;
- Assists s with credit analysis and disclosure document preparation; _
- Assists ~~the Authority~~ in presenting information to bond rating agencies, ~~and~~ credit enhancement providers, and third- party participants such as Fannie Mae or Freddie Mac
- Performs p Pre-marketing of the bonds and notes;
- Coordinates the p Pricing and sale of bonds ~~to investors or underwriter's in-house sale~~ and notes; and
- Engages in t Trading of the bonds and notes.

5. **Bond Trustee/Fiscal Agent/Paying Agent/Escrow Agent**

- Establishes and administers ~~holds~~ the various funds and accounts ~~relating to~~ the for each bond issue; _
- Maintains the list of names and addresses of all registered owners of the bonds and recordings of transfers and exchanges of the bonds; _
- Acts as the authenticating agent; _
- Acts as the paying agent; _
- Protects the interests of the bondholders by monitoring compliance with covenants and acts on behalf of the bondholders in the event of default; _
- As the escrow agent, holds the proceeds from a refunding bond issue (either money or securities purchased with such bond proceeds) and uses such funds for the payments of debt service on the refunded bonds; and
- If acting as a continuing disclosure dissemination agent, acts on behalf of ~~the Authority~~ HACLA to disseminate and/or post annual reports and event notices to the appropriate repositories under Securities and Exchange Commission Rule 15(c)2-12

6. **Credit Enhancement**

~~Credit enhancement may be obtained from various sources such as Fannie Mae, Freddie Mac or bond insurers and may be used to improve or establish a credit rating or improve the interest rate and terms of the debt. Credit enhancement should only be used if it is cost effective.~~

IV. TYPES OF DEBT

~~The President & CEO's designee(s), with the assistance of a Municipal Advisor if desired, will examine and evaluate all available alternatives for new issues and make a recommendation to the President & CEO and the Authority's Board of Commissioners as to which type of financing is appropriate for a particular purpose. Each proposed debt offering must be presented to HACLA's Board of Commissioners and/or the governing body of the related entity. The Capital and Debt Officer, with the assistance of a Municipal Advisor (when appropriate), will provide the President and CEO, or his/her designee(s), with a summary of the key terms of the most suitable financial structure(s) available and appropriate for a particular purpose for each potential debt offering presented to the Board of Commissioners.~~

Factors that should be considered include: ~~(i) Is the issuing option appropriate~~ness under existing laws; ~~(ii) Are there formal policies with respect to the method of sale?~~corresponding compliance with established debt and acquisition policies; ~~(iii) Does the nature of the proposed offering suggest that one method of marketing is more efficient than another?~~cost efficiency of the proposed debt offering and whether it is financial feasible; ~~(iv) Have the Authority's~~HACLA's past issuance ~~practices yielded acceptable results?~~experience with similar transactions; ~~(v) likelihood of successfully executing the debt offering in a timely manner;~~ and (vi) Is the proposed issuance financially feasible and consistent with the stated compatibility of the debt offering relative to HACLA's mission of the Authority?. Only after review and acceptance by the President & CEO, or his/her designees, will the proposed ~~new~~ debt issuance be presented to ~~the~~ Authority's HACLA's Board of Commissioners for review and approval.

The following are the types of debt that ~~the Authority~~ may be issued. ~~The term "bonds" is used interchangeably, whether the debt instrument is a bond, note, or similar instrument.~~

1. New Money Bonds

New money bonds ~~are bonds~~may be issued to finance the ~~costs of~~ acquisition, construction, ~~or rehabilitation, or preservation~~ of affordable, mixed-income, and market rate housing developments, real estate acquisition financing, ~~or~~ redevelopments, capital facilities, or for any other mission-driven purpose as permitted under the Law, Debt may be issued for including a general obligation purpose, although not to fund HACLA's other than general, routine operating expenses. ~~costs, as permitted under California Health and Safety Code Sections 34200-34380 ("Housing Authorities Law") and as approved by the Authority's Board of Commissioners.~~

2. Refunding Bonds

Refunding bonds ~~are bonds or notes may be~~ issued to refinance (refund) the outstanding principal amount of previously issued ~~outstanding~~ debt. ~~The Authority~~ HACLA may issue refunding bonds to refinance the principal of and interest on outstanding bonds or other debt to achieve debt service savings, restructure scheduled debt service obligations, secure additional net proceeds, convert the applicable interest rate to or from ~~or to~~ a variable interest rate or a fixed interest rate, change or modify the source and security for(s) of repayment and security for the refunded debt, and/or to eliminate or modify covenants otherwise binding upon ~~the Authority~~ HACLA. Refunding bonds/notes may be issued either on a current or advance basis, as if permitted by law. Generally, ~~all refundings issues~~ must achieve at least a 3% net present value savings ~~to the Authority~~.

3. Housing Revenue Bonds

Housing Revenue Bonds are generally issued to finance the acquisition, construction, ~~or~~ rehabilitation or preservation of housing units or new housing properties, projects, are Housing Revenue Bond repayment obligations are typically secured by ~~the applicable properties and~~ rely on the pledge of the net operating revenues collected ~~by the Authority~~ from one or more of the named properties, ~~to repay the debt, and may be additionally secured by a pledge of the first deed of trust on the applicable properties.~~

4. Fixed Interest Rate vs. Variable Interest Rate Debt

Debt issuance bearing a fFixed interest rate ~~debt~~ is typically preferred to ~~maintain a more predictable debt service burden. Variable interest rate debt can be utilized on a limited basis when the potential advantages of capturing the lowest interest rates available in the current market outweigh the forecasted risks considering such factors as interest rate exposure over the repayment term.~~ debt issuance bearing a variable- rate interest, although variable rate debt is accepted as an appropriate financing tool for certain financing depending on market conditions.

5. Variable Rate Debt Obligation (VRDO)

Predetermined intervals are set where the rate can be reset to current market conditions. VRDO's with a long maturity can be priced as short-term instruments making it potentially a less costly option in a normal upward sloping yield curve environment. ~~and only with specific approval from the Authority's Board of Commissioners.~~

6. Capital Leases

Capital leases may be used to purchase buildings, equipment, furniture, vehicles, fixtures and intangible assets (such as water rights). The term of any capital lease will not exceed the useful life of the asset leased.

7. Conduit Housing Revenue Bonds

Conduit housing revenue bonds or notes are obligations issued by ~~the Authority~~ HACLA, although secured solely by revenues pledged by a third-party borrower which uses the proceeds of such bonds to acquire, construct or rehabilitate multifamily or other housing. Such bonds or notes are not a general or other obligation of ~~the Authority~~ HACLA but are an special revenue obligation payable only through amounts paid by ~~of~~ the third-party borrower. ~~HACLA~~ The Authority's specific requirements for the issuance of conduit revenue housing bonds ~~has been~~ will be set forth in ~~separate policies and procedures adopted by the Authority's Board of Commissioners or in an amendment to this Policy approved by the Board of Commissioners~~ the Housing Conduit Bond Policy.

8. Bank Loans and Private Placements

Under certain circumstances, it may be advantageous to obtain financing through a direct ~~bank~~ loan. Funded ~~Bank~~ loans may be in the form of fixed rate or variable rate loans with defined maturities or may be lines of credit that have fixed or variable interest rates and flexible payment provisions. ~~One advantage of direct bank loans is that the process for execution is generally less cumbersome and less expensive than with a public bond issue.~~

9. Credit Enhancement Debt

Issuing credit enhanced debt is permissible, provided the credit enhancement obtained from an credit enhancement entity will lower the long-term cost of the financing, expand the pool of potential investors or funding sources, deliver more advantageous financing terms, extend the tenor of the amortization schedule or enhance financial flexibility.

V. PURPOSES OF DEBT AND RELATIONSHIP TO CAPITAL IMPROVEMENT PROGRAM AND BUDGET

The President & CEO's, or his/her designee(s), in consultation with relevant ~~Authority~~ HACLA Department Directors, shall assess and identify the purpose, timing, and amount of debt needed to fund the acquisition, construction, redevelopment, rehabilitation, remediation, improvement or preservation of (i) real estate properties; (ii) land; (iii) support facilities; (iv) office buildings or parking facilities; (v) other permitted activities delineated in HACLA's any capital improvement program, budget, redevelopment or other planning documents; or (vi) any other permitted issuance of debt under the law. ~~needs and mission specific affordable housing goals to determine when facilities or housing units should be improved, rehabilitated or acquired and whether such actions are contemplated in the Authority's capital improvement program, budget or other planning documents.~~ The Designee(s) shall make recommendations to the President & CEO ~~designee(s) shall make recommendations to the President & CEO~~ regarding any debt financing and shall identify potential funding sources.

1. Long-term Debt

Long-term debt may be used to finance purchases or improvement of land or buildings for affordable housing or as otherwise permitted under the Housing Authorities Law when it is appropriate to spread these costs over more than one budget year. Long-term debt may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing related costs which may be legally capitalized.

The time period between issuance and final amortization of the debt should not exceed the estimated useful life of the asset being financed.

HACLA may consider matching the amortization of the debt with any future cash flows generated by, or related to, the asset being financed. Debt financings with un-level or alternative repayment structures may be considered, in cases including, but not limited to, (i) an alternative structuring is beneficial to HACLA's overall debt portfolio and financial condition, or to a specific debt portfolio; (ii) an alternative structuring will more closely match the repayment of the debt with projected cash flows generated by, or related to, the asset being financed; or (iii) natural disasters or extraordinary external factors prohibit making payments on the debt in the early years.

2. Short-term Debt

Short-term debt, such as ~~notes and~~ lines of credit, may be used as an interim source of funding in anticipation of long-term borrowing or may be issued for the same purpose as long-term debt. The purpose of establishing short-term debt is to proactively arrange a cost effective and efficient funding mechanism that provides HACLA with quick access to capital. Timely access to capital enhances HACLA's ability to execute real estate acquisitions, rehabilitations, and property developments. Short-term debt is anticipated to be repaid through bonds, long-term commercial loans, legally permitted cash payments by HACLA, governmental grants, or other capital sources produced through traditional or innovative financial structures.

3. Refunding

Periodic reviews of existing debt will be undertaken to identify refunding opportunities. Refunding will be considered (within State law and Federal tax law provisions) if and when there is a net benefit of refunding. Non-economic refunding may be considered to achieve ~~Authority~~ HACLA goals relating to changes in covenants, call provisions, operational flexibility, tax status, or the debt service profile. ~~The Authority~~ HACLA may purchase its bonds in the open market for the purpose of retiring the obligation when the purchase is cost effective. Generally, all refunding issues must achieve at least a 3% net present value savings to ~~the Authority~~ HACLA.

VI. MANNER OF SALE

There are a number of market factors that will affect the success of a bond offering and each ~~should~~ will be carefully considered before selecting a method of sale. These factors include but are not limited to, ~~the following:~~ (i) market perception of the HACLA Authority's overall credit quality or the financial stability and income of the properties securing the debt on the applicable project; (ii) interest rate volatility; (iii) size of the proposed sale; (iv) complexity of the proposed issue; and (v) competition with other issuers for investor interest (bond supply). ~~HACLA The Authority~~ may issue debt through ~~use either~~ a competitive sale, a negotiated sale, or a direct/private placement ~~of its bonds~~.

1. Competitive Sales of Bonds

The terms and prices of the bonds will be negotiated by ~~the Authority~~[HACLA](#) and various underwriters through a bidding process amongst approved, impartial underwriters and/or underwriting syndicates. Both ~~the Authority~~[HACLA](#) and the underwriter collaborate in the origination and pricing of the bond issue. The issue is awarded to the underwriter judged to have submitted the best value bid that offers the lowest interest rate, taking into account underwriting spread, interest rates and any discounts or premiums.

2. Negotiated Sale of Bonds

A method of sale for bonds, notes, or other financing vehicles in which ~~the Authority~~[HACLA](#) selects in advance, on the basis of proposals received or by other means, one or more underwriters to work with it in structuring, marketing and ~~finally~~ offering an ~~issued~~[debt offering](#) to investors.

3. Direct or Private Placement

A direct or private placement debt instrument is a variation of a negotiated sale in which ~~the Authority~~[HACLA](#), usually ~~with the help of a~~ [in coordination with its](#) Municipal Advisor, will attempt to place a new issue directly with an investor. The investor will negotiate the specific terms and conditions of the financing before agreeing to purchase the issue. Direct or private placement issues are generally undertaken because the transaction is complex or unique, requiring direct negotiations with the investor or bank, when market conditions indicate that this type of sale may result in a lower interest rate on the debt, [when issuing debt at times of heightened market volatility](#), or because the issue [amount](#) is [relatively](#) small and a direct offering provides economies of scale or reduces the cost of issuance.

VII. DERIVATIVE PRODUCTS

~~Because of their complexity, unless otherwise amended~~[The use of](#), derivative products ~~such as interest rate swaps, inverse floaters, and other hybrid securities~~ are [generally](#) prohibited by this Policy, [unless recommended by the President and CEO and approved by the Board of Commissioners](#). -

VIII. PERFORMANCE STANDARDS

~~The Authority~~[HACLA](#) strives to maintain 'investment grade' ratings in the municipal market, [where appropriate](#). Ratings assigned by a nationally recognized statistical rating organization of "BBB" (or equivalent) or higher are considered investment grade (without regard to numerical or "+" or "-" modifiers within the BBB category).

In certain circumstances, ~~and with approval of the Authority's Board of Commissioners, the Authority~~[HACLA](#) may issue non-rated debt if ~~the issuance is deemed financially sound and if it results in more savings to the Authority than obtaining an investment grade rating~~. [\(i\) the issuance results in more savings to HACLA than obtaining an investment grade rating; \(ii\) a modified financial structure is necessary to make the proposed project feasible; \(iii\) the financial structure has demonstrated solid market acceptance without the need for a rating; or \(iv\) the financial structure is innovative and](#)

execution is vital to achieving HACLA's mission-driven initiatives or long-term strategic objectives.

IX. MARKET RELATIONSHIPS

The ~~GAO, or designee,~~ Capital and Debt Officer will be responsible for maintaining relationships with investors, credit analysts, and rating agencies.

X. ON-GOING DEBT ADMINISTRATION AND COMPLIANCE

~~The CAO, or designee,~~ In coordination with the Chief Administrative Officer and Director of Finance, the Capital and Debt Officer will regularly review ~~the Authority's~~ HACLA's outstanding obligations, particularly in declining interest rate environments. When rates begin to approach levels at which a refunding is cost-effective, ~~the Authority~~ HACLA may select a financing team in accordance with Article III to ~~begin preparations~~ prepare for a refunding issue.

1. Continuing Disclosure

~~The Authority's~~ HACLA's Finance Department staff will ensure that ~~the Authority's~~ HACLA's annual financial statements and associated reports are posted on ~~the Authority's~~ HACLA's web site. ~~The Authority~~ HACLA will also contract with consultant(s) and/or shall utilize ~~Authority~~ HACLA staff, to comply with the Securities and Exchange Commission Rule 15(c)2-12 by completing and filing its annual financial statements, other financial and operating data and certain enumerated event notices for the benefit of its bondholders on the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board (MSRB).

Pursuant to California Government Code Section 8855(k), HACLA will submit an Annual Debt Transparency Report ("ADTR") each year including information on any issue of debt for which they have submitted a Report of Final Sale on or after January 21, 2017.

2. Investment of Bond Proceeds

HACLA will direct the investment of bond proceeds, including project funds, reserve funds and other funds in accordance with each indenture or trust agreement related to a debt financing. All investments will be made in accordance with allowable investments as described in the corresponding bond documentation. The investment of bond proceeds shall comply with federal tax law requirements specified in the indenture or trust agreement and the tax certificate. The trustee or fiscal agent will be responsible for recording all investments and transactions relating to the proceeds and for providing monthly statements regarding the investments and transactions.

3. Arbitrage Rebate Compliance and Reporting

The use and investment of bond proceeds must be monitored to ensure compliance with arbitrage restrictions. Existing regulations require that issuers calculate rebate liabilities related to any bond issues, with rebates paid to the federal government every five years and as otherwise required by applicable provisions of the Internal Revenue

Code (“Code”) and regulations. ~~The CAO, or designee, shall~~ HACLA may contract with an arbitrage specialist to ensure that proceeds and investments are tracked in a manner that facilitates accurate, complete calculations, and if necessary, timely rebate payments. ~~The Authority~~ HACLA shall ensure that arbitrage reports for all outstanding bond issues are prepared every five (5) years or more frequently if required by the Code and financing documents.

43. Post-Issuance Compliance

The ~~CAO, or designee~~ Capital and Debt Officer, shall ensure that ~~the Authority~~ HACLA complies with its internal Post-Issuance Bond Compliance Checklist and Post-Issuance Tax-Compliance Procedures for Tax-Exempt Bonds for each applicable debt issuance.

54. Record-Keeping

The ~~CAO, or designee~~ Finance Department shall ensure that all records are maintained, including (i) closing transcripts; (ii) capital expenditures and other documents regarding the use of bond proceeds; (iii) all contracts relating to the use of tax-exempt debt; and (iv) all records of investments related to the issuance of tax-exempt and taxable debt. Records shall be maintained for a period that is the greater of (a) for at least ten (10) years after the last maturity date of such debt; (b) or 10 ten years after such debt is paid in full; or (c) and any longer periods which may be required under the Authority's HACLA's Records Retention Policy and related schedules.

XI. INTERNAL CONTROL PROCEDURES REGARDING USE OF DEBT PROCEEDS

One of ~~the Authority's~~ HACLA's priorities in the management of the debt is to ensure that the proceeds will be directed to the intended use for which the debt has been issued. In addition, the investments of proceeds of bonds or other forms of debt shall be consistent with (i) federal tax requirements and any applicable State law; (ii) ~~the Authority's~~ HACLA's Statement of Investment Policy; and (iii) ~~with~~ the requirements contained in the applicable governing financing documents. ~~In furtherance of these requirements, the CAO will ensure procedures are established which include compliance with CDIAC's Annual Debt Transparency Report.~~

XII. PROCEDURES

The President & CEO may provide for the development, administration and implementation of the procedures to be adopted in furtherance of this Policy (“Procedures”).

XII. AMENDMENTS TO THE POLICY

This Policy may only be amended by the Board of Commissioners.

Adoption and Revision History:

- *Adopted on December 19, 2017; Resolution # 9404*

ATTACHMENT 3

PROPOSED REVISED DEBT MANAGEMENT POLICY
(CLEAN)

HOUSING AUTHORITY OF THE CITY OF LOS ANGELES DEBT MANAGEMENT POLICY

I. INTRODUCTION

The Debt Management Policy (this "Policy") of the Housing Authority of the City of Los Angeles ("HACLA") establishes objectives and guidelines for the issuance and administration of debt and other financing obligations of HACLA and related entities for which the governing body consists only of some or all of the members of HACLA's Board of Commissioners. "HACLA" shall mean HACLA and/or HACLA and its related instrumentalities and component units.

HACLA is authorized to operate in the City of Los Angeles pursuant to the Housing Authorities Laws, at Part 2 of Division 24 of the California Health and Safety Code (the "Law").¹ HACLA's authority under the Law expressly includes the authority to issue bonds in the City. HACLA's authority under the Law also expressly authorizes housing authorities to "issue revenue bonds for the purpose of financing the acquisition construction, rehabilitation, refinancing, or development of multifamily rental housing and for the provision of capital improvements in connection with and determined necessary to the multifamily rental housing."² Further, HACLA has the power to "issue bonds for any of its corporate purposes."³

Except for the exclusions cited below, the guidelines established by this Policy govern the balance of HACLA debt incurred for affordable, mixed-income, and market rate housing developments, real estate acquisition financings, long-term capital financings, and any other lawful purposes. This Policy will also govern debt incurred for property acquisitions executed through partnership interests, as permitted under HACLA's revised and restated Acquisition and Disposition of Real Estate Policy (the "Acquisition Policy"). Such partnership interests include, but are not limited to, (i) large-scale acquisitions of restricted and unrestricted multifamily and related properties or portfolios; and (ii) development partnerships where HACLA or its instrumentality are either the Managing General Partner ("MGP"), Administrative General Partner ("AGP"), or Limited Partner ("LP").

In cases which require exceptions to this Policy, approval from HACLA's Board of Commissioners will be necessary for implementation. In addition, all debt issuances must be approved by a Resolution adopted by HACLA's Board of Commissioners.

Excluded from this Policy are (i) activities that pertain to the financing of general operating functions; and (ii) conduit debt. In the case of conduit debt, the governing debt policy is HACLA's Housing Conduit Bond Policy (the "Conduit Bond Policy").

¹ See CA HSC Division 24, Part 2, Chapter 1, Sections 34200-34606.

² See CA HSC Division 24, Part 2, Chapter 1, Section 34312.3(a)(1).

³ See CA HSC Division 24, Part 2, Chapter 1, Section 34350(a).

II. GOALS AND OBJECTIVES

This section of the Policy sets forth certain equally important goals and objectives for HACLA and establishes overall parameters for responsibly issuing and administering HACLA's debt.

The goals and objectives of HACLA's debt are:

- To finance any of the following as permitted under the Law: (i) the acquisition, construction, rehabilitation or preservation of housing properties comprised of affordable, mixed-income, or market rate dwelling units; (ii) capital projects; and (iii) debt refundings in a timely, responsible and cost-effective manner;
- To minimize both debt repayment obligations and debt issuance costs;
- To maintain market access that can facilitate cost-effective borrowing and the lowest possible interest cost;
- To achieve and maintain the highest reasonable stand-alone, long-term credit rating for debt financing (when applicable);
- To allow for the full and timely repayment of debt obligations, including scheduled debt payments and advance refundings;
- To preserve financial flexibility leading to an enhanced capacity to facilitate all funding requirements for capital facilities, housing and redevelopment activities;
- To maintain compliance with state and federal laws; and
- To ensure the integrity of the debt management process.

This Policy is also intended to facilitate compliance with Section 8855(i) of the California Government Code as amended by SB 1029 ("SB1029"), effective on January 1, 2017, as may be amended from time to time.

III. DELEGATION OF AUTHORITY

The President & Chief Executive Officer, through designated executive staff members, is responsible for the financial affairs of HACLA. This Policy grants the President & CEO, and his/her designee(s), authorization to select the debt financing team (the "Financing Team"), coordinate the administration and issuance of debt, communicate with the credit rating agencies, and to disseminate all pre-issuance and post-issuance disclosure information, all in compliance with applicable law.

The typical Financing Team consists of one or more of the following:

1. Municipal Advisor

- Assists with capital planning and long-term financial planning;
- Coordinates the financing and debt issuance process;
- Helps evaluate underwriter proposals and provides financial analysis and recommendations;

- Reviews and provides advice on project-related debt and investor structure and terms;
- Reviews all other project-related debt and equity documents to ensure there are no conflicts with the debt policy and material terms of the bond;
- Assists with the securing of other professional services and other members of the Financing Team;
- Monitors and evaluates market conditions for opportunities to issue debt at low interest rates;
- Works with HACLA and the underwriter to develop investor outreach and market approach;
- Helps to manage competitive bid processes, as applicable; and
- Ensures negotiated prices are "fair" and reasonable in the marketplace.

2. Bond Counsel

- Provides expert and objective legal opinions and advice;
- Provides assistance as necessary with preparing and/or reviewing Board of Commissioners' Resolutions and corresponding Board Reports;
- Prepares and reviews documents necessary to authorize the issuance, sale and delivery of the bonds, as well as coordination of the authorization and execution of closing documents;
- Reviews legal issues relating to the structure of the bond issue;
- Prepares those sections of the preliminary and final official statements that relate to the bonds, financing documents, bond counsel opinion, and tax exemption and reviews the entire documents before printing and release to investors;
- Assists HACLA in presenting information to bond rating organizations, insurers and credit enhancement providers relating to legal issues affecting the issuance of the debt;
- Reviews the bond purchase contract for the bonds and reviews other underwriting documents and the continuing disclosure undertaking of HACLA; and
- Provides post-issuance advice regarding use of proceeds, debt covenants and, if applicable, tax-exemption compliance.

3. Disclosure Counsel (as needed)

- Prepares the 10b-5 opinion certificates and opinion letter;
- Prepares, reviews, and maintains drafts of preliminary and final official statements and continuing disclosure documents as needed; and
- Assists, as needed, with filings on the Municipal Securities Rulemaking Board's (MSRB) Electronic Municipal Market Access (EMMA) website and other websites.

4. Underwriter/Placement Agent

- Provides information about debt market conditions, trends, and debt structures;
- Assists with credit analysis and disclosure document preparation;
- Assists in presenting information to bond rating agencies, credit enhancement providers, and third-party participants such as Fannie Mae or Freddie Mac;
- Performs the pre-marketing of the bonds and notes;
- Coordinates the pricing, sale and placement of the bonds and notes; and
- Engages in trading of the bonds and notes.

5. Bond Trustee/Fiscal Agent/Paying Agent/Escrow Agent

- Establishes and administers various funds and accounts for each bond issue;
- Maintains the list of names and addresses of all registered owners of the bonds and recordings of transfers and exchanges of the bonds;
- Acts as the authenticating agent;
- Acts as the paying agent;
- Protects the interests of the bondholders by monitoring compliance with covenants, and acts on behalf of the bondholders in the event of default;
- As the escrow agent, holds the proceeds from a refunding bond issue (either money or securities purchased with such bond proceeds) and uses such funds for the payments of debt service on the refunded bonds; and
- If acting as a continuing disclosure dissemination agent, acts on behalf of HACLA to disseminate and/or post annual reports and event notices to the appropriate repositories under Securities and Exchange Commission Rule 15c2-12.

IV. TYPES OF DEBT

Each proposed debt offering must be presented to HACLA's Board of Commissioners and/or the governing body of the related entity. The Capital and Debt Officer, with the assistance of a Municipal Advisor (when appropriate), will provide the President and CEO, or his/her designee(s), with a summary of the key terms of the most suitable financial structure(s) available and appropriate for a particular purpose for each potential debt offering presented to the Board of Commissioners.

Factors that should be considered include the (i) appropriateness under existing laws; (ii) corresponding compliance with established debt and acquisition policies; (iii) cost efficiency of the proposed debt offering and whether it is financially feasible; (iv) HACLA's past issuance experience with similar transactions; (v) likelihood of successfully executing the debt offering in a timely manner; and (vi) compatibility of the debt offering relative to HACLA's mission. Only after review and acceptance by the President & CEO, or his/her designees, will the proposed debt issuance be presented to HACLA's Board of Commissioners for review and approval.

The following are the types of debt that may be issued. The term “bonds” is used interchangeably, whether the debt instrument is a bond, note, or similar instrument.

1. New Money Bonds

New money bonds may be issued to finance the acquisition, construction, rehabilitation, or preservation costs of affordable, mixed-income, and market rate housing developments, real estate acquisition financings, redevelopments, capital facilities, or for any other mission-driven purpose as permitted under the Law. Debt may be issued for a general obligation purpose, although not to fund HACLA’s general, routine operating expenses.

2. Refunding Bonds

Refunding bonds or notes may be issued to refinance (refund) the outstanding principal amount of previously issued debt. HACLA may issue refunding bonds to refinance the principal of and interest on outstanding bonds or other debt to achieve debt service savings, restructure scheduled debt payment obligations, secure additional net proceeds, convert the applicable interest rate to or from a variable interest rate or a fixed interest rate, change or modify the source and security for repayment of the refunded debt, and/or to eliminate or modify covenants otherwise binding upon HACLA. Refunding bonds/notes may be issued either on a current or advance basis, as permitted by law. Generally, refundings must achieve at least a 3% net present value savings.

3. Housing Revenue Bonds

Housing Revenue Bonds are generally issued to finance the acquisition, construction, rehabilitation or preservation of housing units or housing properties. Housing Revenue Bond repayment obligations are typically secured by a pledge of the net operating revenues collected from one or more named properties and may be additionally secured by a pledge of the first deed of trust on the applicable properties.

4. Fixed Interest Rate vs. Variable Interest Rate

Debt issuance bearing a fixed interest rate is typically preferred to debt issuance bearing a variable-rate interest, although variable rate debt is accepted as an appropriate financing tool for certain financings depending on market conditions.

5. Variable Rate Debt Obligation (VRDO)

Predetermined intervals are set where the interest rate can be reset to current market conditions. VRDO’s with a long maturity can be priced as short-term instruments making it potentially a less costly option in a normal upward sloping yield curve environment.

6. Capital Leases

Capital leases may be used to purchase buildings, equipment, furniture, vehicles, fixtures and intangible assets (such as water rights). The term of any capital lease will not exceed the useful life of the asset leased.

7. Conduit Housing Revenue Bonds

Conduit housing revenue bonds or notes are obligations issued by HACLA, although secured solely by revenues pledged by a third-party borrower which uses the sale proceeds of such bonds to acquire, construct or rehabilitate multifamily or other housing property. Such bonds or notes are not a general obligation of HACLA but are a special revenue obligation payable only through amounts paid by the third-party borrower. HACLA's specific requirements for the issuance of conduit revenue housing bonds has been set forth in the Housing Conduit Bond Policy.

8. Bank Loans and Private Placements

Under certain circumstances, it may be advantageous to obtain financing through a direct loan. Funded loans may be in the form of fixed rate or variable rate loans with defined maturities or may be lines of credit that have fixed or variable interest rates and flexible payment provisions.

9. Credit Enhanced Debt

Issuing credit enhanced debt is permissible, provided the credit enhancement obtained from an credit enhancement entity will lower the long-term cost of the financing, expand the pool of potential investors or funding sources, deliver more advantageous financing terms, extend the tenor of the amortization schedule or enhance financial flexibility.

v. PURPOSES OF DEBT

The President & CEO, or his/her designee(s), in consultation with relevant HACLA Department Directors, shall assess and identify the purpose, timing, and amount of debt needed to fund the acquisition, construction, redevelopment, rehabilitation, remediation, improvement or preservation of (i) real estate properties; (ii) land; (iii) support facilities; (iv) office buildings or parking facilities; (v) other permitted activities delineated in HACLA's capital improvement program, budget, redevelopment or other planning documents; or (vi) any other permitted issuance of debt under the Law. The Designee(s) shall make recommendations to the President & CEO regarding any debt financing and shall identify potential funding sources.

1. Long-term Debt

Long-term debt may be used to finance the acquisition or improvement of land or buildings for affordable housing or as otherwise permitted under the Law when it is appropriate to spread these costs over more than one budget year. Long-term debt may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing related costs which may be legally capitalized.

The time period between issuance and final amortization of the debt should not exceed the estimated useful life of the asset being financed.

HACLA may consider matching the amortization of the debt with any future cash flows generated by, or related to, the asset being financed. Debt financings with un-level or alternative repayment structures may be considered, in cases including, but not limited to, (i) an alternative structuring is beneficial to HACLA's overall debt portfolio and financial condition, or to a specific debt portfolio; (ii) an alternative structuring will more closely match the repayment of the debt with projected cash flows generated by, or related to, the asset being financed; or (iii) natural disasters or extraordinary external factors prohibit making payments on the debt in the early years.

2. Short-term Debt

Short-term debt, such as a Line of Credit, may be used as an interim source of funding in anticipation of long-term borrowing or may be issued for the same purpose as long-term debt. The purpose of establishing short-term debt is to proactively arrange a cost effective and efficient funding mechanism that provides HACLA with quick access to capital. Timely access to capital enhances HACLA's ability to execute real estate acquisitions, rehabilitations, and property developments. Short-term debt is anticipated to be repaid through bonds, long-term commercial loans, legally permitted cash payments by HACLA, governmental grants, or other capital sources produced through traditional or innovative financial structures.

3. Refunding

Periodic reviews of existing debt will be undertaken to identify refunding opportunities. Refunding will be considered (within State law and Federal tax law provisions) if and when there is a net benefit of refunding. Non-economic refunding may be considered to achieve HACLA goals relating to changes in covenants, call provisions, operational flexibility, tax status, or the debt service profile. HACLA may purchase its bonds in the open market for the purpose of retiring the obligation when the purchase is cost effective. Generally, all refunding issues must achieve at least a 3% net present value savings to HACLA.

vi. MANNER OF SALE

There are a number of market factors that will affect the success of a bond offering and each will be carefully considered before selecting a method of sale. These factors include but are not limited to, (i) market perception of HACLA's overall credit quality or the financial stability and income of the properties securing the debt on the applicable project; (ii) interest rate volatility; (iii) size of the proposed sale; (iv) complexity of the proposed issue; and (v) competition with other issues for investor interest. HACLA may issue debt through a competitive sale, a negotiated sale, or a direct/private placement.

1. Competitive Sale of Bonds

The terms and prices of the bonds will be negotiated by HACL A and various underwriters through a bidding process amongst approved, impartial underwriters and/or underwriting syndicates. Both HACL A and the underwriter collaborate in the origination and pricing of the bond issue. The issue is awarded to the underwriter judged to have submitted the best value bid that offers the lowest interest rate, taking into account underwriting spread, interest rates and any discounts or premiums.

2. Negotiated Sale of Bonds

A method of sale for bonds, notes, or other financing vehicles in which HACL A selects in advance, on the basis of proposals received or by other means, one or more underwriters to work with it in structuring, marketing and offering a debt offering to investors.

3. Direct or Private Placement

A direct or private placement of debt is a variation of a negotiated sale in which HACL A, usually in coordination with its Municipal Advisor, will attempt to place a new issue directly with an investor. The investor will negotiate the specific terms and conditions of the financing before agreeing to purchase the issue. Direct or private placement issues are generally undertaken because the transaction is complex or unique, requiring direct negotiations with the investor or bank, when market conditions indicate that this type of sale may result in a lower interest rate on the debt, when issuing debt at times of heightened market volatility, or because the issue amount is relatively small and a direct offering provides economies of scale or reduces the cost of issuance.

vii. DERIVATIVE PRODUCTS

The use of derivative products is generally prohibited by this Policy, unless recommended by the President and CEO and approved by the Board of Commissioners.

viii. PERFORMANCE STANDARDS

HACL A strives to maintain "investment grade" ratings in the municipal market, where appropriate. Ratings assigned by a nationally recognized statistical rating organization of "BBB" (or equivalent) or higher are considered investment grade (without regard to numerical or "+" or "-" modifiers within the BBB category).

In certain circumstances, HACL A may issue non-rated debt if (i) the issuance results in more savings to HACL A than obtaining an investment grade rating; (ii) a modified financial structure is necessary to make the proposed project feasible; (iii) the financial structure has demonstrated solid market acceptance without the need for a rating; or (iv) the financial structure is innovative and execution is vital to achieving HACL A's mission-driven initiatives or long-term strategic objectives.

ix. MARKET RELATIONSHIPS

The Capital and Debt Officer will be responsible for maintaining relationships with investors, credit analysts, and rating agencies.

x. ON-GOING DEBT ADMINISTRATION AND COMPLIANCE

In coordination with the CAO and Director of Finance, the Capital and Debt Officer will regularly review HACLA's outstanding obligations, particularly in declining interest rate environments. When rates begin to approach levels at which a refunding is cost-effective, HACLA may select a financing team in accordance with Article III to prepare for a refunding issue.

1. Continuing Disclosure

HACLA's Finance Department staff will ensure that HACLA's annual financial statements and associated reports are posted on HACLA's web site. HACLA will also contract with consultant(s) and/or shall utilize HACLA staff to comply with the Securities and Exchange Commission Rule 15c2-12 by completing and filing its annual financial statements, other financial and operating data and certain enumerated event notices for the benefit of its bondholders on the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board (MSRB).

Pursuant to California Government Code Section 8855(k), HACLA will submit an Annual Debt Transparency Report ("ADTR") each year including information on any issue of debt for which they have submitted a Report of Final Sale on or after January 21, 2017.

2. Investment of Bond Proceeds

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3. Arbitrage Rebate Compliance and Reporting

The use and investment of bond proceeds must be monitored to ensure compliance with arbitrage restrictions. Existing regulations require that issuers calculate rebate liabilities related to any bond issues, with rebates paid to the federal government every five years and as otherwise required by applicable provisions of the Internal Revenue Code ("Code") and regulations. HACLA may contract with an arbitrage specialist to ensure that proceeds and investments are tracked in a manner that facilitates accurate, complete calculations, and if

necessary, timely rebate payments. HACLA shall ensure that arbitrage reports for all outstanding bond issues are prepared every five (5) years or more frequently if required by the Code and financing documents.

4. Post-Issuance Compliance

The Capital and Debt Officer shall ensure that HACLA complies with its internal Post-Issuance Bond Compliance Checklist and Post-Issuance Tax-Compliance Procedures for Tax-Exempt Bonds for each applicable debt issuance.

5. Record-Keeping

The Finance Department shall ensure that all records are maintained, including (i) closing transcripts; (ii) capital expenditures and other documents regarding the use of bond proceeds; (iii) all contracts relating to the use of tax-exempt debt; and (iv) all records of investments related to the issuance of tax-exempt and taxable debt. Records shall be maintained for a period that is the greater of (a) ten years after the last maturity date of such debt; (b) ten years after such debt is paid in full; or (c) any longer periods which may be required under HACLA's Records Retention Policy and related schedules.

xi. INTERNAL CONTROL PROCEDURES REGARDING USE OF DEBT PROCEEDS

One of HACLA's priorities in the management of the debt is to ensure that the proceeds will be directed to the intended use for which the debt has been issued. In addition, the investments of proceeds of bonds or other forms of debt shall be consistent with (i) federal tax requirements and any applicable State law; (ii) HACLA's Statement of Investment Policy; and (iii) the requirements contained in the applicable governing financing documents.

xii. PROCEDURES

The President & CEO may provide for the development, administration and implementation of the procedures to be adopted in furtherance of this Policy ("Procedures").

xii. AMENDMENTS TO THE POLICY

This Policy may only be amended by the Board of Commissioners.

Adoption and Revision History:

- Adopted on December 19, 2017; Resolution No. 9404
- (Proposed) Revised on January 27, 2022, Resolution No. _____