

Debt Management Policy

The purpose of the Debt Management Policy is to provide guidelines for the issuance of bonds and other forms of indebtedness to finance necessary land acquisitions, capital construction, equipment, and other items for the City, as well as guidelines for monitoring outstanding debt. This policy will assist the City in determining appropriate uses of debt financing, establish certain debt management goals, and assist the City in maintaining, and if possible, improving its current credit ratings, while assuming a prudent level of financial risk and preserving the City's flexibility to finance future capital programs and requirements.

Scope

This policy shall govern, except as otherwise covered by federal and state regulations and City Code, the issuance and management of all debt and lease financings funded in the capital markets. While adherence to this policy is desired, changes in the capital markets as well as unforeseen circumstances may from time to time produce situations that are not covered by the policy and may require modifications or exceptions to achieve City goals. The City's Debt Management Policy shall be reviewed annually.

Debt Issuance Process

Assessing Financing Needs for Capital Programs: The determination of how much indebtedness the City can afford begins by assessing the sufficiency of future revenues to fund the 5-year Capital Improvement Plan (CIP). Factors such as debt service coverage requirements outlined in the bond indentures, the impact on businesses and citizens, tax rates, user fees, voter authorization, and any impact on the bond ratings **will** be carefully considered.

Approval of Issuance: The bond sale amount **will** be determined based on financial cash flow projections, will comply with federal, state, and local legal requirements, and **will** obtain issuance approval from City Council.

Method of Sale: Three methods of sale for issuing debt obligations **will** be considered; competitive sale, negotiated sale, and private placement. Each type of bond sale has the potential to provide the lowest cost, given the right market conditions. The method of sale that is most advantageous to the City will be determined under consultation with the City's Financial Advisor.

Financial Service Providers: The City Manager and the City Finance Director shall be responsible for establishing a solicitation and selection process that complies with City Code requirements for securing professional services (i.e. bond counsel, financial advisor, arbitrage compliance specialist, underwriters) that are required to develop and implement the City's debt program.

Credit Ratings: Staff will assess the importance of credit ratings for each new debt. If credit ratings are to be obtained, the goal will be to maintain or improve ratings from all 3 rating agencies.

Limitations on City Indebtedness

Debt Coverage Goals: Utility rates will be set, as a minimum, to ensure the rates of revenue to debt service meet bond indenture requirements of 1.2 times coverage (ongoing system revenues will cover ongoing debt at 120%) to comply with existing Debt Covenants. The goal **will** be from 1.5 to 2 times coverage to allow for fluctuations in revenue collection and to achieve the highest credit rating when bonds are sold. Excise Tax revenue will be greater than 3 times (the goal will be over 5 times) the amount of debt service outstanding to meet Excise Tax Revenue Obligations debt coverage requirements.

Target Limitation on General Obligation (GO) Debt: State Statutes limit the amount of GO debt that a municipality can have outstanding. In general, the City's outstanding GO debt for the water, wastewater, parks, public safety, transportation, and street lighting programs is limited to 20% of the City's net assessed Limited Property Valuation (LPV) and for all other programs the amount of outstanding GO debt is limited to 6% of the City's LPV. Other factors, such as providing capacity for future programs will also be taken into consideration.

Target Limitations on the Issuance of Revenue/Excise Tax Secured Debt Obligations: The City shall seek to

finance the capital needs of its revenue producing enterprise activities through the issuance of revenue-secured or excise tax-secured debt obligations. Prior to issuing revenue-secured debt obligations, financial plans will be updated and reviewed to determine required rates and charges needed to support the planned financing, and the impact on rate payers and other affected parties. The amount of revenue-secured debt obligations issued by the City will be limited by the feasibility of the overall financing. Revenue-secured debt levels shall be limited by coverage and parity covenants and potential credit rating impacts.

Target Limitation on Lease-Purchase Financing: The City may enter into short-term lease-purchase obligations to finance the acquisition of capital equipment with estimated useful lives of less than seven years. Repayment of these lease-purchase obligations shall occur over a period not to exceed the useful life of the underlying asset. The Finance Department shall be responsible for developing procedures for use by City departments interested in participating in the lease-purchase program, and for setting repayment terms and amortization schedules, in consultation with participating departments.

Improvement District Debt: The City may issue Improvement District debt only when there is a general City benefit. Improvement Districts are generally formed only by property owners in a designated area within the City in which they agree to be assessed for the repayment of the costs of constructing improvements that benefit the owner's property. Improvement District debt is secured by a lien on the property and improvements of all parcels within each district. Each Improvement District financing must be closely evaluated since it is also secured by the General Fund and is viewed by the credit rating agencies as an indirect debt of the City.

Variable Rate Debt: The City shall not issue Variable Rate Debt.

Voter Authorized Debt

Voter authorized debt shall be used, but non-voter authorized debt (i.e. Municipal Property Corporation (MPC), Excise Tax Revenue Obligations (ETROs) may be used when dedicated revenue sources (i.e., Water and Wastewater user fees) other than secondary property taxes can be identified to pay debt service expenses and the following conditions are considered:

- a. A project requires additional funds over and above what is available from other sources and meets the City's goals and objectives.
- b. Emergency situations, such as an unfunded mandate or circumstance affecting the public health and welfare.
- c. The project will generate a positive net revenue position (i.e. revenues will exceed the cost of financing).

Debt Management Process

Debt Service Structure: The Finance Director will carefully consider the debt service structure for each bond issue. Factors such as the flow of revenues available for a particular credit, the need to fill in gaps created by refunding specific principal maturities or to structure savings from a refunding in a particular year will be considered. Accelerated repayment may be considered within the bonding capacity constraints to provide capacity for future capital programs. Bonds will be amortized over a period of time not to exceed the useful life of the assets being financed.

Maturity: The final maturity of a bond sale shall be equal to or less than the remaining useful life of the assets being financed, and the average life of the financing shall not exceed 120% of the average useful life of the assets being financed.

Investment of Bond Proceeds: The City shall comply with all applicable federal, state, and indenture restrictions, if any, regarding the use and investment of bond proceeds. This includes compliance with any restrictions on the types of investment securities allowed, restrictions on the allowable yield of invested funds, as well as restrictions on the time period over which some bond proceeds may be invested. Finance Director, or his/her designee, will direct the investment of bond proceeds in accordance with the permitted investments for each bond issue. Investments such as guaranteed investment contracts may be considered when their use is in the best interest of the City and will be selected on a competitive basis.

Refunding Bonds: Refunding bonds are issued to retire all or a portion of an outstanding bond issue. Most typically this is done to refinance at a lower interest rate to reduce debt service. Alternatively, some refundings

are executed for reasons other than to achieve cost savings, such as to restructure the repayment schedule of the debt, to change the type of debt instruments being used, or to retire an indenture in order to remove undesirable covenants. A present value analysis must be prepared that identifies the economic effects of any potential refunding. For refunding transactions solely undertaken to achieve cost savings, the target savings amount shall be measured using the present value savings as percentage of par method. The target present value savings from any refunding candidate shall generally be at least 3% of the refunded par amount net of all transaction expenses and in excess of \$1,000,000. The Finance Director in collaboration with the City's Financial Advisor, shall have discretion in making the final determination to include individual refunding candidates that are slightly below the target in order to optimize the City's financial objectives.

Arbitrage Rebate: The City shall comply with all arbitrage rebate requirements as established by the Internal Revenue Service (IRS) and establish a system of recordkeeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. This effort shall include tracking project expenditures financed with bond proceeds, tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebate earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the City's outstanding tax-exempt debt issues. Arbitrage service providers may be used to assist the City with complying with arbitrage regulations.

Issuance & Post-Issuance Compliance Procedures: Adopted procedures for tax-exempt bonds shall be followed. Staff will work closely with the City's Bond Counsel, Financial Advisor, and Arbitrage Compliance Specialist to ensure tax-exempt bonds remain in compliance with federal tax requirements from the time they are issued until they are no longer outstanding.

Continuing Disclosure Undertaking (CDU): The City will comply with the requirements of Rule 15c2-12 of the Securities and Exchange Commission (SEC) when applicable. The Finance Director, or his/her designee, will be responsible for filing the annual requirements.

Declaration of Official Intent: In order to ensure debt can be issued to reimburse the City for project expenses prior to issuing debt, a Declaration of Official Intent (under Treasury Regulation Section 1.150-2) must be completed annually and filed with the City Clerk. The Declaration shall list all projects for the upcoming fiscal year. This will allow the City to reimburse certain capital expenses with the proceeds from tax-exempt reimbursement bonds, should such bonds be sold in the upcoming fiscal year.