**Title:** **FINANCIAL POLICY**

**Section:** **DEBT MANAGEMENT POLICY**

**Date of Version: March 12, 2019**

**Resolution No.:**

## I. GENERAL POLICIES

### A. Use of Debt.

Debt shall only be used to finance capital improvement projects, firefighting equipment, affordable housing developments, participation in state or federal tax credit programs, or economic development projects as authorized by City Council. Debt shall not be used to fund recurring expenses unless associated with capital improvement projects and so provided in the bond indenture.

### B. Pay-As-You-Go Funding of Capital Outlays.

The City shall strive to limit debt and to fund projects on a pay-as-you-go basis when possible.

### C. Capital Planning.

Debt issued for the purpose of funding non-emergency capital improvement projects shall not be authorized by the City Council unless the project has been included in the Five-Year Capital Improvement Plan (CIP). The City Council's adoption of the Five-Year Capital Improvement Plan (CIP) will serve as the City's intent to issue general obligation bonds in the future.

### D. Debt Management.

The Finance Director is primarily responsible for ensuring compliance with the terms and conditions described this policy. The Finance Director shall be assisted by other staff and officials when appropriate and at the Finance Director's discretion. The Finance Director shall also be authorized to retain and consult with advisors in order to carry out the duties and responsibilities of this policy. The Finance Director shall utilize such other professional service organizations as are necessary to ensure compliance, and the Finance Director shall provide training and educational resources to staff responsible for ensuring compliance with any portion of the requirements of this policy.

### E. "Debt" Defined.

For purposes of this policy "debt" is defined as: 1) any short-term or long-term debt obligation under the terms of a new or amended indenture, loan agreement, lease, or similar contract; 2) a direct purchase of City issued municipal security by an investor; 3) a direct loan by a bank, institution, or other individual or entity; 4) a lease or similar contract that operates as a vehicle to borrow money, or 5) a guarantee thereof.

## II. DEBT LIMITS

### A. General Obligation Debt Limits.

The City shall manage its debt program so that the amount of net direct debt outstanding at any time does not exceed 1.50% of the City's total assessed value. The City shall strive to meet the Moody's Aaa benchmark of net direct debt outstanding of .75% of the City's total assessed value. The City's total outstanding long-term debt will adhere to State law which sets the limit at 5% of the city's total assessed value.

### B. Debt Service Levy Limits.

The City's debt service property tax levy shall not exceed 30% of the total property tax levy; however, City Council may adopt a levy that exceeds this limit for emergencies, changes in property tax laws, approved bond referendums, avoidance of debt default, or other reasons or purposes deemed critical by the City Council.

### C. Revenue-Secured Debt Limits.

The City may finance capital needs through the issuance of revenue-secured debt obligations. Prior to issuing revenue-secured debt obligations, the appropriate staff, will develop financial plans and projections showing the feasibility of the planned financing, required revenues needed to support the planned financing, and the impact of the planned financing on ratepayers, property owners, City departments, and/or other affected parties. For new issues, the amount of revenue-secured debt obligations issued will be limited by the feasibility of the overall financing plan and should have a projected minimum revenue coverage ratio of at least 1.25 times annual debt service at issuance. The coverage ratio may be lower if financial projections show this to be in the best interest of the City, if permitted in the bond indenture, and if additional security features exist which mitigate the risk of a lower coverage ratio. Existing issues shall have a projected revenue coverage ratio that complies with the existing bond indenture.

### D. Annually Appropriated Debt Obligations.

The use of annually appropriated debt obligations for the purpose of circumventing the debt limits of this policy is prohibited. For property tax rebates or other liabilities that are contingent on the actions, revenues, or events that are beyond the City's control and which may delay or prevent the City from being required to make payment, the City's preferred practice will be to issue these debts as annually appropriation obligations.

## III. STRUCTURE AND TERM OF INDEBTEDNESS

### A. Term of Debt will have a term that does not exceed the maximum term defined by State law.

Debt will be structured for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users. General obligation bonds will be limited to State law as to the length of debt. The City's standard terms for General obligation bonds are ten years, revenue bonds are twenty years, and all other debt instruments will match the payback period of the project.

Refunding bonds should not have a term that exceeds the remaining term of the refunded bonds. However, the term of the refunding bonds may be extended where a financial plan has determined this to be in the best interest of the City or to meet other financial goals of the City.

**B. Principal Repayment Structure.**
To the extent possible, repayment of debt should be structured so as to rapidly pay down principal and should use a level principal or other rapidly amortizing structure whenever possible. Long-term bonded debt should, as a general rule, be structured with level debt service payments; however, uneven payment structures are permissible in order to match debt service with projected revenues used to pay debt service. Long-term bonded debt, including refunding bonds, may also be structured to wrap around existing obligations or to achieve other goals of the City, as permitted by State law. Increasing payment structures, back loaded principal, balloon structures, or long periods of interest only payments should generally not be used. However, these structures may be used to wrap around existing obligations or where a financial plan has determined this to be in the best interest of the City.

**C. Long Term Variable-Rate Debt.**
Generally, the City shall only use fixed rate debt instruments for long term financing. When appropriate, securities may be issued that pay a rate of interest that varies according to a pre-determined index/formula or results from a periodic remarketing of the securities. Prior to issuing variable rate debt, the City shall approve a plan to address interest rate risk associated with these instruments. The use of interest rate swaps in concert with variable rate debt to produce synthetic fixed rate debt is prohibited.

**D. Lease-Purchase Obligations.**
The City may use lease-purchase obligations in lieu of general obligation or revenue bonded debt. Use of these instruments will be limited to specific projects or purposes and will not be utilized as a general practice for the financing of capital improvement projects. Uses of this type of obligation will be limited to those purposes specified in Section I.A. of this policy.

**E. Subordinate Lien Obligations.**
Subordinate lien financing structures, where appropriate, may be used based on the overall financing needs of the City, expected credit ratings, relative cost of a subordinate lien structure, and potential impacts on the City.

**IV. SHORT-TERM DEBT AND INTERIM FINANCING**

**A. Lines of Credit.**
The City may enter into agreements with commercial banks or other financial entities for purposes of acquiring lines of credit that shall provide access to credit under terms and conditions as specified in such agreements. Before entering into any such agreements, a financial plan will be approved by the City Council to include plans for addressing long-term financing, method of repayment, interest rate risk, and any other potential risks. The line of credit should be established in compliance with any applicable State laws.

**B. Bond Anticipation Notes.**

The City may choose to issue Bond Anticipation Notes (BANs) or similar structures as a source of interim financing. Before issuing such notes, a financial plan will be approved by the City Council to include plans for addressing long-term financing and interest rate risk. Use of these instruments will be limited to specific projects or purposes and will not be utilized as a general practice for the financing of capital improvement projects.

**C. Tax and Revenue Anticipation Notes.**

Tax and Revenue Anticipation Notes will be used only on an emergency basis and will not be used as a general practice to finance ongoing operations. Before issuing such notes, a financial plan will be approved by the City Council including cash flow projections and stress testing of revenues and, if applicable, plans for addressing long-term operational or financial issues.

## V. SELECTION OF FINANCE CONSULTANTS AND SERVICE PROVIDERS

The Finance Director shall be responsible for establishing a solicitation and selection process for securing professional services that are required to develop and implement the City's debt program. The solicitation and selection process will comply with City requirements for such services as outlined in the City's Purchasing Manual.

**A. Bond Counsel.**

The City Attorney's Office and the Finance Director will work together, in accordance with Purchasing Manual, to solicit, select, contract for, and oversee continuation of competent bond counsel services throughout the life of outstanding bonds.

**B. Underwriters.**

The City shall solicit formal proposals for underwriting services for all debt issued in a negotiated or private placement sale. The solicitation process shall include formation of a review committee to evaluate written proposals and, if deemed necessary, conduct oral interviews. The selection of underwriters may be for an individual or series of financings or a specified time period.

**C. Municipal Advisor (Financial Advisor).**

A committee, including the Finance Director, shall make recommendations to the City Manager regarding the selection of municipal advisors to be employed and the duration of such employment. The time period for employment may relate to an individual or a series of financings, or for a specified period of time. The municipal advisor shall be a registered independent advisor and in no case will the advisor's firm or affiliates be allowed to underwrite bonds for the City.

**D. Other Service Providers.**

The Finance Director or the appropriate City staff shall solicit for providers of other services necessary to carry out the debt issuance activities of the City. Solicitation of these services may also be accomplished through Bond Counsel or the Municipal Advisor if the contract allows. The cost and perceived quality of service of the proposed service provider shall be used in the evaluation of these services. Potential service providers include:

a. Disclosure Counsel
b. Tax Counsel
c. Paying Agent
d. Escrow Agent
e. Trustee Bank
f. Verification Agent
g. Printing Services
h. Arbitrage Rebate and Yield Restriction Services
i. Placement Agent
j. Other

## VI. METHOD OF SALE

### A. Competitive Sale.

General Obligation new money bonds shall be issued by competitive sale. Any other debt issuance, including General Obligation refunding bonds, may be done through a competitive sale where it is determined that a competitive sale is the best method to achieve a lower interest cost and/or to effectively market the debt.

### B. Negotiated Sale.

Debt, except for General Obligation new money bonds, may be sold through a negotiated sale where it is determined to be the best method to achieve a lower interest cost and/or effectively market the debt. Such determination may be made on an issue by issue basis, for a series of issues, or for part or all of a specific financing program. Selection of the underwriting team shall be made pursuant to selection procedures set forth in Section V of this policy.

### C. Private Placement.

Debt may be sold through a private placement or limited public offering where it is determined to be in the best interest of the City. Private placements may be done with or without a placement agent. Solicitations for financing terms of a private placement shall be made through selection procedures developed by the Finance Director, consistent with the City's Purchasing Manual.

## VII. REFUNDING OF CITY INDEBTEDNESS

### A. Debt Service Savings--Advance Refundings.

The City may issue advance refunding bonds (as defined for federal tax law purposes) when legally permissible, prudent, and net present value savings equals or exceeds seven percent. An analysis should be considered of the net present value savings of executing the advance refunding versus waiting to refund in the future considering potential interest rates and escrow costs.

**B. Debt Service Savings--Current Refundings.**
The City may issue current refunding bonds (as defined for federal tax law purposes) when legally permissible, prudent, and the net present value savings equals or exceeds five percent.

**C. Restructuring of Debt.**
The City may choose to refund outstanding indebtedness when existing bond covenants or other financial structures impinge on prudent and sound financial management. Savings requirements for current or advance refundings undertaken to restructure debt may be waived upon a finding that such a restructuring is in the overall best financial interest of the City.

## VIII. CREDIT RATINGS

**A. Use of Rating Agencies.**
The Finance Director or appropriate staff of the issuing entity, in consultation with the City's municipal advisor, shall be responsible for determining whether or not a rating shall be requested on a particular issue, and which of the major rating agencies shall be asked to provide such a rating. Rating agencies shall be selected that are well established with investors; however, the City's preferred rating agency will be Moody's Investors Service.

**B. Long-Term Rating Requirements.**
The City will strive to maintain a Moody's bond rating of 'Aaa' for its General Obligation Unlimited Tax (GOULT) bonded indebtedness. The City will strive to maintain a Moody's rating of 'A3'or higher for its revenue bonded indebtedness.

**C. Use of Credit Enhancement.**
Credit enhancement (letters of credit, bond insurance, surety bonds, etc.) may be used when such credit enhancement proves cost-effective. Credit enhancement may be used to improve or establish a credit rating on a debt obligation even if such credit enhancement is not cost effective if the use of such credit enhancement meets the City's debt financing goals and objectives.

## IX. CONTINUING DISCLOSURE, POST ISSUANCE COMPLIANCE AND COVENANTS
The City shall have a Post Issuance Compliance Policy, administered by the Finance Director that shall ensure a system has been established to meet any post issuance compliance requirements related to debt. These requirements may include:

- Compliance with federal tax code
- Compliance with other State and Federal law
- Continuing disclosure requirements
- Bond indenture requirements and covenants

The City shall also maintain a Bond Disclosure policy to ensure that the City complies with the provisions included in its continuing disclosure certificates and that all applicable debt disclosures for new and existing debt are accurate and complete. Before any debt is incurred, the proposed documents shall be presented to, and reviewed by, the City's Finance Director to ensure that all required disclosures are being made.

**X. DERIVATIVE PRODUCTS**

The City, as a practice, will not use derivative products in financing transactions.

**XI. INVESTMENT OF BOND PROCEEDS**

Bond proceeds, including reserve funds, shall be invested in accordance with the City's Investment Policy, the bond indenture requirements, and State and Federal law.

**XII. ANNUAL REPORTING**

The Finance Director shall provide the City Manager and City Council an annual long-term debt disclosure report within 210 days after the fiscal year-end regarding the City's outstanding debt and debt program. The Finance Director shall, at a minimum, provide the following information:

- **General Long-term Debt Obligations**:
  - Total actual and taxable property valuations
  - The historical trend of actual and taxable property valuations
  - List of the City's 10 largest taxpayers
  - Summary of all of the City's direct, long-term debt obligations
  - Debt per capita (GO Debt and TIF Revenue Debt)
  - Debt per total assessed value (GO Debt and TIF Revenue Debt)
  - City's debt versus the legal debt limit

- **Revenue-Secured Debt Obligations:**
  - Summary of the system
  - Summary of the system's rates and charges
  - The historical trend of system's sales and charges
  - Coverage ratios for system
  - Number of system customers, if applicable
  - List of system's 10 largest users, if applicable

The report should also include a list of any potential upcoming debt issues and a summary of any material events that have occurred in the past year. The report may also include any other relevant information that is significant to the City's debt program or ability to repay its debt obligations.