Subject: Debt Management Policy
Policy No.: 200-0010
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DEBT MANAGEMENT POLICY

Overview

The goal of the City's debt policy is to maintain a sound fiscal position; thereby only utilizing long-term debt to provide resources to finance needed capital improvements, while accumulating adequate resources to repay the debt. Using debt financing to meet the capital needs of the community must be evaluated according to two tests - efficiency and equity. The test of efficiency equates to the highest rate of return for a given investment of resources. The test of equity requires a determination of who should pay for the cost of capital improvements. In meeting the demand for additional capital facilities, the City will strive to balance the load between debt financing and "pay as you go" methods. The City realizes failure to meet the demands of growth may inhibit its continued economic viability, but also realizes too much debt may have detrimental effects. Through the rigorous testing of the need for additional debt-financed facilities and the means by which the debt will be repaid, the City will strike an appropriate balance between service demands and the amount of debt.

Purpose of Debt Issuance

The City is permitted to issue any form of debt that does not contradict the existing Constitution and laws of the State of Georgia. These include, but are not limited to:

- General Obligation Bonds
- Revenue Bonds
- Intergovernmental Contracts
- Lease Purchases / Certificates of Participation
- Temporary Loans

The City is authorized by the Constitution and laws of the State of Georgia to issue general obligation bonds not to exceed 10% of the assessed value of all taxable property within the City. Lease-purchase financing and intergovernmental contract financing are not counted within the 10% test. However, the City will remain cognizant of the millage assessed for repayment of general government debt and will strive to maintain a stable millage in the debt service area for the benefit of its taxpayers. Special assessment, dedicated revenue and other self-supporting bonds will be utilized instead of ad valorem-supported general obligation bonds, when feasible.

The City's enterprise funds may issue revenue bonds and other long-term debt secured by enterprise revenues so long as annual obligations are covered 1.2 times by pledged revenues. When possible, the City will seek to "pay-as-you go" of project costs by maintaining adequate rate structures to support this target.

The City uses lease purchase financing for the provision of new and replacement equipment, vehicles and rolling stock to ensure the timely replacement of equipment and vehicles and to decrease the impact of the cost to the user department by spreading the costs over several years. For purposes of securing credit ratings and monitoring annual debt service as a percentage of operating expenditures; lease purchase financing is considered a long-term liability of the City and therefore will be issued under the same conditions as long-term debt.

Where cost effective, the City may choose to issue temporary loans between funds to finance short-term capital needs. Such interfund loans can be seen as an alternative investment of temporarily surplus City funds, which normally would be invested at a short-term rate as part of the City's pooled investment program. In approving any such interfund loan, the City Council will adopt a resolution that sets forth conditions of the loan, which will include the interest rate and term of the loan. Careful analysis will be performed on the lending fund's working capital to assure adequate cash flow will remain after the money is transferred to the borrowing fund.

Conditions for Using Debt

Debt financing of capital improvements will be done only when the following conditions exist:

1. When non-continuous projects (those not requiring continuous annual appropriations) are desired;
2. When it can be determined that future users will receive a benefit from the improvement;
3. When the project is necessary to provide basic services to residents and taxpayers;
4. When the rights of bond buyers and subsequent investors are protected through full disclosure; and
5. When total debt, including that issued by overlapping governmental entities, does not constitute an unreasonable burden to the residents and taxpayers.

Tax anticipation notes or any other revenue anticipation borrowing will be avoided. In the event such borrowing occurs on an emergency basis, the debt will be retired in full by the end of the calendar year in which it is incurred.

Sound Financing of Debt

When the City utilizes debt financing, it will ensure that the debt is soundly financed by:

1. Conservatively projecting the revenue sources that will be used to pay the debt;
2. Financing the improvement over a period not greater than the useful life of the improvements;
3. Determining that the benefits of the improvement exceed the costs, including interest costs;
4. Evaluating proposed debt against the target debt indicators.

Debt Indicators and Target Levels of Debt

The City recognizes that municipal bond rating agencies and financial analysts have established key debt indicators by which they evaluate the credit strength of issuers. Since debt issued by entities sharing the same geographic area cannot be controlled by the City, the indicator that will be used will be calculated using only direct debt issued by the City itself.

A. Debt Service Levels: City general obligation bonded indebtedness must be voter-authorized and is payable via the Debt Service Fund from voter-authorized designated special purpose local option sales tax and unlimited ad valorem taxes. Debt service obligations via the General Fund consist of lease obligations, intergovernmental contract obligations, etc. The City will use direct debt service expense as a percent of General Fund, Sales Tax Fund, and Debt Service Fund expenditures to monitor its debt burden in relation to financial operations. A debt service expense ratio of 10 to 15 percent is generally considered fair. The City shall strive to maintain its annual debt service expense ratio at or below this threshold.

B. Length of Debt: Debt will be structured for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users and consistent with the useful life of the assets to be financed.

C. Debt Structure: Debt will be structured to achieve the lowest possible net cost to the City given market conditions, the urgency of the capital project, and the nature and type of security provided. Moreover, to the extent possible, the City will design the repayment of its overall debt so as to recapture rapidly its credit capacity for future use. The City shall strive to repay at least 20 percent of the principal amount of its <u>total general obligation and intergovernmental contract debt profile</u> within five years and at least 40 percent within ten years.

   The City will seek to structure debt with level principal and interest costs over the life of the debt. However, the City may consider a structured or wrapped debt service amortization when such structuring is beneficial to the City's overall amortization schedule, when the benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present, when such structuring will allow debt service to more closely match anticipated revenues/receipts, or when natural disasters or extraordinary / unanticipated external factors make the short-term cost of the debt prohibitive.

D. Variable Rate Debt: The City may choose to issue securities that pay a rate of interest that varies according to pre-determined formula or results from a periodic remarketing of the securities, consistent with state law and covenants of pre-existing bonds, and depending on market conditions. The City will have no more than 15 percent of its outstanding debt in variable-rate form.

E. Refunding: Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities. Refunding will be considered, within federal tax law constraints, if and when there is a net economic benefit of the refunding or the refunding is essential in order to modernize covenants essential to operations and management. In general, refunding for economic savings will be undertaken when a net present value savings of at least three percent (3%) of the refunded principal can be achieved. A current refunding that produces a net present value savings of less than three percent (3%) will be considered on a case-by-case basis. A refunding with negative present value savings will not be considered unless there is a compelling public policy objective.

F. Debt Burden: The City shall continually strive to limit the debt burden upon its citizens. As such, the City shall effort to maintain its net direct indebtedness <u>(excluding self-supporting indebtedness)</u> below 1.5% of full market value and $1,500 per capita.

G. Federal Tax Law and Arbitrage Compliance: The Chief Financial Officer shall maintain a system of record keeping and reporting to meet the federal tax law requirements, including arbitrage rebate compliance, as further detailed in the City's "Post-Issuance Tax Compliance Policy and Procedures".

Debt administration and process

Depending upon conditions at the time, the City may elect to sell its bonds via negotiated sale, competitive sale, private placement, or other method. Negotiated sales of debt will be considered when resulting in substantial savings in time or money, when the complexity of the issue requires specialized expertise, when a change of underwriter may result in losses, or when market conditions or City credit are unusually volatile or uncertain. For competitive sales, bids will be awarded on a true interest cost basis, providing other bidding requirements are satisfied.

The City Manager (or designee) shall have the authority to select professionals (underwriters, bond counsel, financial advisors, escrow agents, verification agents, trustees, arbitrage consultants, etc.) as necessary to meet legal requirements and minimize net City debt costs. As set forth in the City's "Purchasing Policy", the City Manager (or designee) may select firm(s) to provide such financial services related to debt without an RFP. A firm so selected shall have its engagement conclude upon issuance of the debt.

Bond Market Disclosure

The Chief Financial Officer is responsible for maintaining relationships with the rating agencies that assign ratings to the City's various debt obligations. This effort includes providing periodic updates on the City's general financial condition along with coordinating meetings and presentations in conjunction with a new debt issuance.

The City is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, City departments, and the general public to share clear, comprehensible, and accurate financial information. The City has adopted a separate "Post-Issuance Tax Compliance Policy and Procedures" to address such disclosures.

The City is committed to meeting secondary disclosure requirements on a timely and comprehensive basis. Official statements accompanying debt issues, Annual Financial Reports, and continuous disclosure statements will meet (at a minimum) the standards articulated by the Governmental Accounting Standards Board (GASB), the National Federation of Municipal Analysts, the Securities and Exchange Commission (SEC), and Generally Accepted Accounting Principles (GAAP). The City considers its Comprehensive and Financial Report (CAFR) to be the most appropriate document in which to provide the continuing disclosure information. The City will strive to timely remit the CAFR consistent with its continuing disclosure requirements.