

City of Upper Arlington Debt Policy

PROPOSED AMENDED POLICY

Introduction

This Debt Policy is a companion document to the City’s Capital Improvement Plan (CIP). The intent of this policy is to guide City officials as they consider the proper allocation of cash and debt funding to pay for ongoing capital improvements. The intent of the language in this policy is to summarize conditions that support using debt for capital improvements and to define best practices for minimizing debt payments and issuance costs, retaining the highest credit rating possible, and maintaining full and complete financial disclosure and reporting. The debt policy is considered necessary to help guide City officials as deemed appropriate to maintain sound financial management practices. This policy is also designed to be flexible in its application to allow for exceptions to the guidelines under changing and extraordinary circumstances.

Overview

One of the primary decisions made regarding financing the City’s CIP is to identify the preferred funding allocation for capital, whether to use cash on hand, or debt, including short-term notes and long-term bonds, as funding sources. This policy sets forth helpful guidelines for making these decisions. The guidelines are designed to be flexible to reflect the rapidly changing nature of the credit markets. These guidelines are described in Section 1 below. Section 2 of this policy establishes debt management administrative procedures.

SECTION 1

Capital Funding Sources – Guidelines for Allocating Payment Sources

Cash Funding

City policy encourages funding capital projects with cash, on a “pay as you go” basis, to the extent possible and prudent. The City allocates 28% of its income tax collections to the Capital Asset Management Fund for capital projects each year. The revenue is used first for annual debt payments, with the remaining amount available for cash funded projects. Cash funding is recommended under the following circumstances:

- a) To finance purchases of assets whose lives are five (5) years or less;
- b) To finance recurring maintenance expenditures (e.g., street repair vs. street reconstruction);
- c) When market conditions are unstable or offer historically high interest rates.

Debt Financing

Short-term debt financing:

This policy defines short-term debt as securities with final principal and interest payments due in one year or less from the date of issuance. Typically, this type of borrowing takes the form of “short-term” bond or revenue anticipation notes. Short-term bond anticipation notes may be issued as described below to facilitate a “pay as you go” financing program, or to provide interim funding for a “long-term bond” financing (similar to a construction loan).

- a) Pay-As-You-Go: Certain projects in the capital plan are best suited for cash funding on a pay-as-you-go basis. Projects with useful lives of less than five years are an example. For purposes of this policy, “pay-as-you-go” financing includes selling short-term notes with the expectation of paying the notes off in full within one year to five years of initial issuance.
- b) Interim Funding for long-term bond financing: Short-term notes are also appropriately used in anticipation of refunding them at a future date with long-term bonds. Typically, such notes are referred to as “bond anticipation notes”. Bond anticipation notes are most suitable under the following conditions:
 - ✓ Notes are used as a temporary funding source prior to and in anticipation of the completion of a bond sale;
 - ✓ The immediate need for financing is less than \$5 million.

Long-term debt financing:

The policy suggests using notes and bonds for long-term capital asset funding under the guidelines set forth below. No single guideline stands alone; they must all be considered under the then-current circumstances and in relation to the others. Also, the guidelines are instructive and not directive in nature, and are therefore intended to be flexible to react to the changing conditions of the capital markets.

The guidelines are as follows:

- a) Variable rate bonds or short-term notes are standard funding sources for long-term financing under the following certain conditions: i) When either type of security is used for long-term financing, the City will schedule annual principal redemptions similar to the payments typically structured for a fixed-rate bond issue that conforms to the City’s fixed-rate debt policy bond guidelines herein, and ii) To minimize overall interest rate risk, the principal amount of variable rate bonds and short-term notes outstanding at any one time will be generally ~~targeted~~ restricted to not to exceed twenty percent (20%) of the City’s overall outstanding debt.

- b) Long-term bonds are recommended for projects with useful lives of ten years or longer and for amounts of \$5 million or greater.
- c) Tax supported ~~D~~debt funding ~~may~~ will be considered as long as the ratio of available capital fund dollars to all similarly funded debt payments, projected forward seven years, does not fall below ~~2~~ two to ~~1~~ one. (For purposes of this guideline, debt payments are defined as general obligation and income tax special revenue bond debt payments, including projected payments for the refunding of outstanding general obligation or income tax special revenue bond anticipation notes.)
- d) Non-tax supported debt funding will be considered providing the ratio of available non-tax revenue to all similarly funded debt payments, projected five years forward, does not fall below 1.5 times projected bond payments.
- e) Long-term fixed-rate bonds are considered especially recommended when average long-term interest rates, as indicated by the Bond Buyer General Obligation 20 Bond Index, are at or below eighty-five percent of the twenty-year average index rate. Long-term bonds are considered less attractive when average rates for the index are at or above one hundred and fifteen percent of the twenty-year average.
- f) Long-term general obligation, non-tax revenue, and special revenue bonds (such as income tax revenue bonds) are considered less appropriate when the City has reserves set aside for essential near-term capital funding needs and it is believed the issuance of any particular debt offering may significantly weaken the City's credit profile.
- g) Long-term debt securitized by non-tax or assessment revenues, but not by the City's general obligation pledge, is appropriate for project funding where the tax or revenue burden rests primarily on a select group of taxpayers or beneficiaries, such as for project revenue bonds, special assessment projects, tax increment financings, or economic development projects. Prior to seeking legislative approval for these types of financings, the City's Financing Team will have formed an opinion that a ~~Any particular~~ financing ~~of this type~~ would ultimately ~~must~~ receive a rating of "A2" Moody's or "A" Standard & Poor or higher ~~to receive City approval~~.
- h) City officials will strive to structure the repayment of general obligation and special revenue income tax supported notes and bonds to achieve an aggregate pay-out ratio of fifty percent (50%) or more of the stated maturity. Non-tax revenue, special assessment and other debt specifically issued to support economic development project agreements will mature in line with the life of the supported agreement, or sooner.

SECTION 2

Recommended Administrative Procedures

Federal tax law - All tax-exempt financings must comply with the use of funds and expenditure timing restrictions set forth in federal tax law. In addition, the size and timing of notes or bonds may be affected by opportunities provided in the tax code, such as rebate exemptions and so on. City officials will retain professional assistance to comply with federal law and assist in the preparation of rebate computations.

Note and Bond Maturities – Final bond maturities shall not exceed the average maximum useful life of the projects included in the financing as prescribed by Ohio bond law.

Debt instruments – The City will use the most efficient and economical debt instrument for its debt financings, including: voted general obligation notes and bonds; unvoted general obligation notes and bonds; non-tax revenue bonds; special assessment and tax increment notes and bonds; capital leases; special obligations; revenue bonds; or any other appropriate funding source provided for in the Ohio Revised Code. All of these instruments are considered “debt” for purposes of this policy.

Bond retirement fund – The City will attempt to maintain a bond retirement fund year-end balance equal to its maximum scheduled semi-annual debt payment.

Continuing Disclosure – The City will comply with its continuing disclosure obligations and its disclosure requirements as provided in its Continuing Disclosure Certificates associated with its various outstanding securities issuances. The City may retain a “disclosure agent” to assist with its compliance duties.

Refinancing Opportunities – City officials will work with the Municipal Advisor to monitor opportunities to refinance its outstanding bonds.

Bond Insurance – City officials will explore the value of purchasing bond insurance for its bond sales but only when, and if, market conditions suggest that insurance would be beneficial.

Economic Development – City officials will consider opportunities to foster economic development by issuing debt. Economic development debt offerings typically include tax increment financings, special revenue bonds, non-tax revenue and special assessment notes and bonds. The City may also serve as the conduit issuer for industrial revenue bonds. The City may also participate in economic development focused transactions supported by City revenues but where the debt is issued by a conduit borrower, such as the Columbus Port Authority, for example.

Interest Rate Hedges – The City may consider using the interest rate hedges provided for under Ohio law to the extent they are appropriate for limiting future interest rate risk or lowering the overall debt payments for the City’s outstanding debt. City Council will not be asked to authorize any hedges without first receiving a full disclosure of the possible risks and rewards. Under no circumstances will the City enter into derivative contracts exposing the City to “basis risk” as defined by general industry guidelines.

Professional Services – Underwriters and Municipal Advisors retained by the City in connection with the City’s debt program shall provide full disclosure to the City of any formal or informal relationships or agreements that may be in conflict with the best interest of the City. The City shall retain professionals in connection with its debt issuances based upon demonstrated qualifications, including past successful performance. Officials will review its relationships, or request statements of qualification, from qualified providers not less than every fifth year.

Review of Debt Policy - Upon Council organization, review of the Debt Policy shall occur in conjunction with the review of the Financial Policies.

Resolution of Reimbursement - A resolution of reimbursement shall be passed at the beginning of any year in which the issuance of debt is anticipated.

SECTION 3

Conformance to City Code

The intent of these policies is to conform to the Upper Arlington City Code, which shall control in the event of consistency.