

**CITY OF POWDER SPRINGS
FINANCE AND ADMINISTRATION
DEPARTMENT**

DEBT POLICY

TABLE OF CONTENTS

I. INTRODUCTION	2
II. DEBT INSTRUMENTS	2
III. CITY DEBT POLICY	3
IV. PURPOSE OF DEBT ISSUANCE	3
V. DEBT STRUCTURE	3
VI. DEBT RATIOS	4
A. Overall Debt as a Percentage of Assessed Valuation	
B. Overall Debt Per Capita	
VII. DEBT MANAGEMENT POLICIES	4
VIII. ADMINISTRATION AND IMPLEMENTATION	5
IX. CAPITAL PLANNING AND DEBT DETERMINATION	5
X. ISSUANCE OF DEBT	5
XI. LEGALITY	6
XII. INTEREST RATE EXCHANGE AGREEMENTS	6
XIII. CONTINUING DISCLOSURE	6
XIV. ARBITRAGE REBATE REPORTING	6

DEBT POLICY

I. Introduction

The City of Powder Springs recognizes that one of the keys to sound financial management is a debt policy. These benefits are recognized by bond rating agencies and the development of a debt policy is a recommended practice by the Government Finance Officers Association. A debt policy establishes the parameters for issuing and managing debt. It provides guidelines regarding the timing and purposes for which debt may be issued, presents the types of permissible debt, and the methods of sale that may be used. The debt policy should recognize an obligation to fully and timely repay all debt as an essential requirement for entry into the capital markets. Adherence to a debt policy helps to ensure that a government maintains a sound financial position and that credit quality is protected.

The debt policy is to be used in conjunction with the operating and capital budgets, the Capital Improvement Program (CIP), and other financial policies. The advantages of a debt policy are:

- enhancing the quality of decisions;
- documenting the decision-making process;
- identifying objectives for staff to implement;
- demonstrating a commitment to long-term financial planning objectives; and
- being viewed positively by the bond rating agencies.

II. Debt Instruments

General obligation bonds are bonds secured by a promise to levy taxes in an amount necessary to pay debt service, principal and interest, coming due each fiscal year. General obligations bonds are backed by the full faith and credit of the City. These bonds are authorized by a referendum or by non-voted (2/3's) authorization by the governing body. The non-voted authorization allows governments to issue up to two-thirds of the previous year's net debt reduction without a referendum.

Revenue bonds are a pledge of the revenues generated by the debt financed asset or by the operating system of which that asset is a part.

Special obligation bonds are bonds that are payable from the pledge of revenues other than locally levied taxes. Examples include the beer and

wine tax or enterprise revenues.

Certificates of Participation (COPs) are an alternative financing method that does not require voter approval. These certificates represent an undivided interest in the payments made by a public agency pursuant to a financing lease or an installment purchase agreement. The security for this financing is represented by a lien on the property acquired or constructed. The City may use COPs for City facilities.

An Installment Purchase Contract is an agreement in which the equipment or property is acquired and periodic payments, which are sufficient to pay debt service, are made.

III. City Debt Policy

1. Long-term debt shall not be used to finance ongoing operational expenses.
2. Any debt issued shall not have a maturity date beyond the useful life of the asset being acquired or constructed by the debt proceeds.
3. The City shall establish an affordable debt level to preserve credit quality and ensure sufficient revenue is available to pay annual debt service. This will be balanced against the City's need to maintain its infrastructure and manage growth.
4. The City will use appropriate debt instruments to provide funding for capital assets at the lowest cost with minimal risk. The City will monitor its debt positions to maintain the lowest effective cost.
5. The City will, at all times, manage its debt and sustain its strong financial position, including healthy reserves, to seek and maintain the highest credit rating possible.

IV. Purposes for Debt Issuance

The City may issue debt for the purpose of acquiring or constructing capital assets including land, buildings, machinery, equipment, furniture and fixtures. When feasible, debt issuance will be pooled together to minimize issuance expense. Annually, the City will prepare and adopt a Capital Improvement Program (CIP) to identify and establish an orderly plan to

meet the City's infrastructure needs. The CIP will also identify all debt-funded projects and the related debt service impact.

V. Debt Structure

Debt will be paid off in a timeframe that is less than or meets the useful life of the asset or project acquired through the financing. The life of the debt, interest mode and principal maturity schedule make up the structure of the debt. This debt could be general obligation, revenue or special obligation bonds, certificates of participation or other installment financing agreements.

The City will consider various financing techniques including fixed or variable interest rate debt and interest rate swap agreements in order to minimize the interest costs over the life of the issue. The use of these techniques will be evaluated based on market conditions and the maximum benefit to the City while minimizing the City's risk. However, the City will not consider financing techniques more complicated than what staff can effectively understand and manage.

VI. Debt Ratios

The City shall abide by the following debt ratios:

- A *Overall Debt as a Percentage of Assessed Valuation*. This ratio measures debt levels against the property tax base which generates the tax revenues that are the main source of debt repayment. Per Article IX, Section V, Paragraph 1 of the GA Constitution, the ceiling for this ratio is 10.0%.
- B *Overall Debt per Capita*. This ratio measures the burden of debt placed on the size of the population supporting the debt and is widely used by rating analysts as a measure of an issuers' ability to repay debt. The City will aim to maintain this ratio at a level not to exceed \$1,500.

These ratios will be calculated and reported each year in conjunction with the capital budget process, the annual financial audit and as needed for fiscal analysis.

VII. Debt Management Policies

1. The City will issue debt only for the purposes of constructing or acquiring capital assets and for making major renovations to existing capital assets.
2. The City shall not construct or acquire a public facility if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility.
3. The City will ensure that adequate systems of internal control exist so as to provide reasonable assurance as to compliance with applicable laws, regulations, and covenants associated with outstanding debt.
4. The City will manage debt issuance to comply with the adopted debt limits and will evaluate those limits at least every five years.
5. The City will attempt to structure debt in the best and most appropriate manner consistent with the financial policies of the City in order to level principal repayment and minimize interest expense.
6. The City will monitor its outstanding debt in relation to existing conditions in the debt market and will refund any outstanding debt when sufficient cost savings can be realized or utilize interest rate swap agreements to achieve cost savings.
7. To reduce the impact of capital programs on future years, the City will fund a portion of its CIP on a pay-as-you-go basis by:
 - appropriating 50% of the excess fund balance (net of all City Council imposed reserve requirements) for capital projects
 - appropriating proceeds from all City land sales for capital projects. Pay-as-you-go funding will save money by eliminating interest expense on the funded projects.

Pay-as-you-go capital appropriations improve financial flexibility in the event of sudden revenue shortfalls or emergency spending.

VIII. Administration and Implementation

The City Manager and the Director of Finance are responsible for the administration and issuance of debt including the completion of specific tasks and responsibilities included in this policy. The City will evaluate the debt policy at least every five years.

IX. Capital Planning and Debt Determination

The City Manager reviews departments' and other agencies' capital requests and recommends capital projects based on needs. The City Manager provides a recommended Capital Improvement Program (CIP) for

consideration by the Mayor and City Council. The Mayor and City Council then approves both a three-year needs assessment and an annual capital budget. The Mayor and City Council adopts capital projects ordinances which provide budgetary authority.

Funding of the capital budget will be determined in conjunction with the approval of the CIP by the Mayor and City Council. Available pay-as-you-go funding and debt issuance will be allocated to fund the CIP based on the debt management policy. Debt financing will also be considered for equipment items that are included in departmental requests.

The City may use a combination of bonds and Certificates of Participation (COPS) to finance capital assets. COPS do not require voter approval but do require collateral as security. COPS are usually used to finance projects deemed essential by the governing body and timing is such that it is impractical to seek voter approval.

Any capital item that has not been included in either of the above two processes, but because of its critical or emergency nature where timing was not anticipated in the CIP or budgetary process or is mandated immediately by either State or Federal requirements, will be considered for financing by installment purchase contract.

X. Issuance of Debt

The scheduling and amount of bond sales and installment purchase transactions will be recommended by the Director of Finance and the City Manager. The Mayor and City Council must approve the sale. These decisions will be based upon the identified cash flow requirements for each project to be financed, market conditions, and other relevant factors including the debt ratios. If the cash requirements for capital projects are minimal in any given year, the City may choose not to issue debt. Instead, the City may fund up-front project costs and reimburse these costs when financing is arranged. In these situations, the City will adopt a reimbursement resolution prior to the expenditure of project funds.

Fixed rate general obligation bond sales are conducted on a competitive basis by the Local Government Commission (LGC), a division of the Office of the State Treasurer. Variable rate bonds, revenue and special obligation bonds and COPS will be sold on a negotiated basis with the underwriter selection determined through a competitive process. Underwriters will be

selected for each issue based on the particular experience and expertise necessary for that issue.

Debt service for each issue will be structured in an attempt to level out the City's total debt service payments over the life of the debt portfolio. This structuring also assists in minimizing the interest payments over the life of the issue. Structuring must take into consideration current market conditions and practices in the municipal finance market.

XI. Legality

The City must receive an opinion acceptable to the market from a nationally recognized law firm that each financing transaction complies with applicable law and all agreements in connection with any financing are legal, valid and binding obligations of the City.

XII. Interest Rate Exchange Agreements

Reserved

XIII. Continuing Disclosure

The City will provide on-going disclosure information to established national information repositories and maintain compliance with disclosure standards promulgated by state and national regulatory agencies. The City will maintain good communications with bond rating agencies to inform them about the City's financial position by providing them the City's Annual Comprehensive Financial Report (ACFR) and operating and capital improvements Budget.

XIV. Arbitrage Rebate Reporting

The City will comply with all arbitrage rebate requirements as established by the Internal Revenue Service and all disclosure requirements established by the Securities and Exchange Commission. This effort includes tracking investment earnings on bond proceeds, calculating rebate payments in compliance with the tax law and remitting rebatable earnings to the federal government in a timely manner in order to preserve the tax- exempt status of the City's outstanding debt issues.