City of Wheatland

Debt Management Policy

Adopted September 10, 2019

Section 1 – Introduction

The purpose of this Debt Management Policy (Policy) is to establish guidelines for the issuance and management of the City's debt. While the City prefers to finance projects on a pay-as-you-go basis, in the event debt is necessary, this Policy confirms the commitment of the Council, management, staff, advisors and other decision makers to adhere to sound financial management practices, including full and timely repayment of borrowing, and achieving the lowest possible cost of capital within prudent risk parameters.

Debt Issuance Priorities:

1. Achieve the lowest cost of capital
2. Maintain a prudent level of financial risk and maintain the City's sound financial position
3. Preserve future financial flexibility
4. Ensure that all debt is structured to maximize the benefit to both current and future taxpayers, ratepayers, and constituents of the City
5. Maintain full and complete financial disclosure and reporting
6. Obtain and maintain the highest practical credit ratings
7. Maintain good investor relations with all investors in City debt
8. Ensure compliance with state and federal laws and regulations
9. Ensure that the City's debt is consistent with the City's planning goals and objectives and capital improvement program or budget, as applicable

This policy shall govern the issuance and management of all debt and lease financing funded from the capital markets (including private placement and bank loans), including the selection and management of related financial services and products and investment of bond and lease proceeds. While adherence to this policy is required in applicable circumstances, it is recognized that changes in the capital markets, agency programs and other unforeseen circumstances may from time to time produce situations that are not covered by this policy and will require modifications or exceptions to achieve policy goals. In these cases, management flexibility is appropriate, provided specific authorization from the City Manager and City Council is obtained.

Section 2 – Responsibilities

The City's debt program for all City funds shall be operated in conformance with applicable federal, state, and other legal requirements, including the Wheatland Municipal Code.

Responsibility for managing the coordinating of all activities related to the structure, issuance and administration of all long- and short-term debt obligations shall rest with the Finance Director.

No debt obligations shall be presented to the City Council for their authorization without the joint assessment and recommendation of the City Manager, Finance Director and the City Attorney. Departments planning debt-financed capital programs or equipment acquisitions shall work closely with the City Manager, Finance Director and City Attorney to provide information and otherwise facilitate the issuance of on-going administration of debt.

The Finance Director shall have the authority to periodically select service providers as necessary to meet legal requirements and minimize debt costs. Such services may include financial advisory, underwriting, trustee, verification agent, escrow agent, arbitrage consulting, special tax consulting, and bond and disclosure counsel. To achieve an appropriate balance between service and cost, the Finance Director is authorized to select such service providers through a competitive process using a Request for Qualifications or through sole source selection when appropriate.

The Finance Director shall be responsible for maintaining good communications with rating agencies, investors and other debt related service providers about the the City's financial condition and will follow a policy of full disclosure.

The Finance Direct shall conduct a review of the Policy each year during the annual budget process and bring forward to the City Council any amendments deemed necessary and appropriate.

Section 3 – Debt Considerations

The City will evaluate the need for debt financing a project compared to a pay-as-you-go financing methodology. The City prefers to fund projects on a pay-as-you-go basis.

A. Factors favoring a pay-as-you-go methodology include:
   a. Current projected revenues and fund balances available are sufficient to fund the project
   b. Long term total costs are lower due to the avoidance of interest expense
   c. Existing debt capacity is insufficient to absorb the additional debt without adverse impact to credit ratings
   d. Market conditions are unfavorable or present difficulties in marketing

B. Factors favoring debt financing include:
   a. Current and projected revenues available for debt service are sufficient and reliable so that financing can be marketed with investment grade credit ratings
   b. Preservation of Fund Balance reserve targets
   c. Market conditions present favorable interest rates and demand for the City financings
   d. A project is mandated by state or federal requirements, and current resources are insufficient or unavailable to fully fund the project
   e. The project is immediately required to meet or relieve capacity needs or emergency conditions and current resources are insufficient or unavailable
   f. The savings from the project are sufficient to pay for the debt service costs

The City will review debt limits in conjunction with any proposed financing. It is the City's goal to limit debt service costs in the General Fund to no more than 8 percent of revenues, including transfers. Payments on bonds that are tied to a specified revenue stream other than General Fund resources (e.g. enterprise revenue bonds, tax allocation bonds, and land secured bonds) are not subject to the 8 percent limit. Each proposed financing will be individually assessed by the Finance Director and subject to the approval policies contained herein.

Section 4 – Debt Term

The City Council recognizes that any new debt obligation will have an impact on the long-term affordability of all outstanding debt and any future planned debt, as well as budgetary impacts associated with the maintenance and operating costs of debt financed facilities.

A. Term of Debt – Debt will be structured for the shortest period possible, consistent with a fair allocation of costs to current and future beneficiaries or users. The weighted average maturity of the debt (or portion of the debt allocated to the project) shall not exceed the useful life of the project.
B. Debt Repayment – Typically, the City desires level debt service payments over the term of the debt. However, the cost of capital, financial risk, current economic conditions, future financial flexibility, credit ratings and available cash flow will be evaluated to determine the most appropriate method of debt amortizations for each debt issue. Notwithstanding the above, back loading of debt service will be evaluated as the circumstances dictate. Back loading occurs when debt services payments are lower in the initial years of a debt term and higher toward the later years of a debt term.

Section 5 – Debt Issuance

The City has the capacity to issue long and short term debt and to refund any outstanding debt. The following section details the purposes of debt issuance and the method of determining the type of sale for such debt.

A. Long-term Debt – Long term debt may be used to finance the acquisition or improvement of land, infrastructure, facilities or equipment for which it is appropriate to spread the costs of such over more than one budget year. Long term debt may be used to fund capitalized interest, cost of issuance, required reserves and any other financing related costs that may be legally capitalized. Long term debt shall not be used to fund City operating costs.
B. Short term Debt – Short term debt will be considered as an interim source of funding in anticipation of long term debt. Short term debt may be issued for any purpose for which long term debt may be issued, including capitalized interest and financing related costs. Short term debt is also appropriate to address legitimate short term cash flow requirements during a given fiscal year to fund the operating costs of the City to provide necessary public services. The City will not engage in short term borrowing solely for the purpose of generating investment income.
C. Financings on Behalf of Other Entities – The City may find it beneficial to issue debt on behalf of other governmental agencies or private third parties to further the public purposes of the City. In such cases, the City shall take reasonable steps to confirm the financial feasibility of the project to be financed and the financial solvency of any borrower and that the issuance of such debt is consistent with the policies set forth herein.
D. Refunding – Refunding opportunities will be identified by periodic reviews of outstanding debt obligations. Refunding will be considered when there is a net economic benefit from the refunding of at least five percent on a net present value basis. Non-economic refunding may be undertaken to achieve City objectives relating to changes in covenants, call provisions, operational flexibility, tax status, issuer, or other non-economic factors related to the debt.

E. Method of Sale – The City shall have the flexibility to determine which method of sale is appropriate for each debt issuance in light of market interest rates and City objectives. Determination of the appropriate method of sale will rest collectively with the City Manager, Finance Director and City Attorney. Potential methods of sale include:
    a. A competitive bidding process through which interested underwriters submit proposals to purchase an issue of bonds and the award is based on, among other factors, the lowest offered true interest cost
    b. A negotiated sale process through which a selected underwriter, or team of underwriters, negotiate the terms of an issue and sell bonds in the municipal market subject to approval by the City to ensure that interest costs are in accordance with comparable market interest rates.
    c. A private (or direct) placement sale when the financing can or must be structured for a single or limited number of purchasers or where the terms of the private placement are more beneficial to the City than either a negotiated or competitive sale
F. Pooled Financing – The City may also consider use of pooled financing as a method of accessing the capital markets. Use of pooled financing will be evaluated collectively by the City Manager, Finance Director and City Attorney.

Section 6 - Debt Structure

A. Credit Ratings – The City seeks to obtain and maintain the highest possible credit rating when issuing debt. The City will seek credit ratings from at least one of the three major ratings agencies on all debt, as appropriate. Ratings from multiple rating agencies may be sought for a single debt issue based upon the market conditions at the time of the issuance.
B. Fixed Rate and Variable Rate Debt – The City prefers to issue fixed rate debt. Variable rate debt may be used, if market conditions warrant at the time of issuance. It is acknowledged that variable rate debt passes an unknown obligation onto future budget cycles.
C. Debt-related Derivatives – Derivative products may have application with regard to certain City borrowing programs. The City acknowledges the increased complexity associated with use of derivatives and the City Manager, Finance Director and the City Attorney will evaluate the use of derivative products on a case-by-case basis.
D. Call Provisions – The timing for when bonds are callable varies and is determined at the time of pricing such bonds. The City's preferred structure is to negotiate for optional redemption at par in order to maintain flexibility in the future, but a final decision will be made on a case-by-case basis based on evaluation of the marketability of the City's bonds.
E. Credit Enhancements – The City may use credit enhancements (letters of credit, bond insurance, surety bonds, etc.) when such credit enhancements prove to be cost effective. The City will consider the use of credit enhancements on a case-by-case basis.
F. Reserve Funds – A debt service reserve fund provides an added measure of security to bondholders and may improve the credit rating and thus lower the costs of borrowing. Reserve funds may be necessary for specific transactions, or the City may choose to create one if it is determined to be cost effective. When cost beneficial the City may consider the use of surety bonds, lines of credit, or similar instruments to satisfy the reserve requirement.

Section 7 – Private Activity Use Limitations on Tax Exempt Debt

IRS Tax Code Section 141 sets forth private activity tests for the purpose of limiting the volume of tax-exempt bonds that finance activities of persons other than state and local governmental entities. These tests serve to identify arrangements that actually or reasonably expect to transfer the benefits of tax-exempt financing to non-governmental persons. The law includes tests of private use, security and payment as well as private loan financing tests. The law also provides for various safe harbors and nuances to the application of these limits. The City will manage a process to ensure private use compliance and will consult with bond counsel to obtain federal tax advice in whether anticipated project use will be consistent with the restriction on private business use of the bond financed property and, if not, whether any "remedial action" permitted under code section 141 of the code may be taken as means of enabling that use arrangement to be put into effect without adversely affecting the tax-exempt status of the bonds.

With respect to tax-exempt bonds, the City pledges in each bond issuance that it will monitor and control the receipt, investment, expenditure, and use of bond proceeds and will take or omit to take any actions to cause interest on tax-exempt bonds to remain excludable from the gross income of bond holders. City staff will ensure appropriate lease and building use policies to maintain compliance with this pledge.

Section 8 – Interfund Borrowings

The City may borrow internally from other funds with temporary cash surpluses to meet short term cash needs in lieu of issuing debt. Interfund borrowing extending for more than one year will be brought to Council for approval.

Section 9 – Debt Administration

The Finance Director shall be responsible for administering the City's debt management program. To that end, this position shall:

A. Comply with all reporting requirements within the bond documents
B. Review all outstanding debt for refunding opportunities
C. Maintain positive working relationships with rating agencies and other financial professionals
D. Review and recommend appropriate structures for all new debt issuances
E. Ensure compliance with the Investment Policy and bond documents regarding investing bond proceeds

Section 10 - Disclosure

The Finance Director shall be the Disclosure Coordinator of the City. The Disclosure Coordinator shall review any Official Statement prepared in connection with any debt issuance by the City in order to ensure that there are no misstatements or omissions of material information in any sections that contain descriptions of information prepared by the City.

In connection with the review of the Official Statement, the Disclosure Coordinator shall consult with third parties, including outside professionals assisting the City, and all members of City staff, to the extent that the Disclosure Coordinator concludes they should be consulted so that the Official Statement will include all "material" information (as defined for purposes of federal securities law).
As part of the review process, the Disclosure Coordinator shall submit all Official Statements to the City Council for approval.

The approval of an Official Statement by the City Council shall be placed on the agenda as a Regular Calendar item and shall not be approved as a consent item. The City Council shall undertake such review as deemed necessary by the City Council, following consultation with the Disclosure Coordinator, to fulfill the City Council's responsibilities under applicable federal and state securities laws. In this regard, the Disclosure Coordinator shall consult with the City's disclosure counsel to the extent the Disclosure Coordinator considers appropriate.

Under the continuing disclosure undertakings that the City has entered into in connection with its debt offerings, the City is required each year to file annual reports with the Municipal Securities Rulemaking Board's ("MSRB") Electronic Municipal Market Access ("EMMA") system in accordance with such undertakings. Such annual reports are required to include certain updated financial and operating information, and the City's audited financial statements. The City is also required under its continuing disclosure undertakings under SEC Rule 15c2-12 to file notices of certain events with EMMA. The City may designate an agent to undertake continuing disclosure filing on behalf of the City. The Disclosure Coordinator is responsible for establishing a system (which may involve the retention of one or more consultants) by which:

A. The City will make the annual filings required by its continuing disclosure undertakings on a complete and timely basis
B. The City will file notices of enumerated events on a timely basis

Whenever the City makes statements or releases information relating to its finances to the public that are reasonably expected to reach investors and the trading markets, the City is obligated to ensure that such statements and information are complete, true, and accurate in all material respects. The Disclosure Coordinator shall ensure that the members of the City staff involved in the initial or continuing disclosure process and the City Council are properly trained to understand and perform their responsibilities.

Section 11 – Arbitrage Compliance

Arbitrage is defined as the profit earned when tax-exempt bond proceeds are invested in higher yielding securities than the interest rates of the bonds issued. To ensure compliance with federal arbitrage laws, the City will monitor ongoing activities, including remittance of any required arbitrage rebate. If necessary, the City will utilize a consultant for arbitrage rebate calculations and preparation of the required Internal Revenue Service forms. Arbitrage rebate calculations on outstanding bond issues will be performed periodically, but never longer the the 5th year after a bond issuance.