



# **Debt Management Policies & Guidelines**

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## **I. CITY'S DEBT POLICY**

### **A. Purpose**

The City recognizes the foundation of any well-managed debt program is a comprehensive debt management policy. A debt management policy sets forth the parameters for issuing debt and managing the outstanding debt portfolio and provides guidance to decision makers regarding the purposes for which debt may be issued, types and amounts of permissible debt, timing and method of sale that may be used, and structural features that may be incorporated. Adherence to a debt management policy helps to ensure that the government maintains a sound debt position and that credit quality is protected.

It is the intent of the City to establish a debt management policy to:

- Ensure high quality debt management decisions;
- Impose order and discipline in the debt issuance process;
- Promote consistency and continuity in the decision making process;
- Demonstrate a commitment to long-term financial planning objectives, and
- Ensure that debt management decisions are viewed positively by rating agencies, the investment community and by taxpayers.

### **B. Implementation**

The City's debt policy shall be implemented by the Finance Director and provide the following guidelines:

- Full and timely payment of principal and interest on all outstanding debt;
- Debt shall be incurred only for those purposes as provided by State Statute;
- Capital improvements should be developed with the capital improvement budgeting process;
- Originally the payment of debt shall be secured by the limited tax, full faith, credit and taxing power of the City, in the case of General Obligation Bonds, and by the pledge of specified, limited revenues in the case of revenue bonds.
- The City shall not pledge any City revenues to its conduit bond (EDC) financing. Furthermore, the City has no moral obligation to repay bondholders of conduit (EDC) financing issued under its authority;
- Principal and interest retirement schedules shall be structured to: (1) achieve a low borrowing cost for the City, (2) accommodate the debt service payments of existing debt and (3) respond to perceptions of market demand. Shorter maturities shall always be encouraged to demonstrate to rating agencies that debt is being retired at a sufficiently rapid pace;
- Debt incurred shall be limited to obligations with serial and term maturities;
- The average life of the debt incurred may not be greater than the projected average life of the assets being financed;
- The City shall select a method of sale that shall maximize the financial benefit to the City. So long as the City remains a credit rating of A or better, sales shall be competitive. All methods of sale shall be subject to Finance Director approval.

- The City shall maintain good communications with bond rating agencies to ensure complete and clear understanding of the credit worthiness of the City; and
- Every financial report, bond prospectus and continuing disclosure report shall follow a policy of full, complete and accurate disclosure of financial conditions and operating results. All reports shall conform to guidelines established by this Debt Policy, the Securities and Exchange Commission ("SEC") and the Internal Revenue Service (IRS) to meet the disclosure needs of rating agencies, underwriters, investors and taxpayers.

## **II. FINANCING ALTERNATIVES**

The City shall assess all financial alternatives for funding capital improvements prior to issuing debt. Pay-as-you-go financing should be considered before issuing any debt. Pay-as-you-go financing may include: Inter-governmental grants from federal, state and other sources; current revenues and fund balances; private sector contributions; public/private partnerships; and leasing payments.

Once the City has determined that "pay-as-you-go" is not a feasible financing option, the City may use Short or Long term debt to finance capital projects.

### **A. Short Term Debt and Interim Financing - Maturity of one (1) year or less**

Bond Anticipation Notes may be issued to finance portions of projects or portions of projects for which the City ultimately intends to issue long term debt; i.e., it shall be used to provide interim financing which shall eventually be refunded with the proceeds of long term obligations.

Short-term obligations are backed by the proceeds of the long-term bonds or other revenue sources.

### **B. Long Term Debt (Bonds) - Maturity over one (1) year.**

Long-term limited and/or unlimited tax general obligation debt shall be issued to finance significant capital improvements. Additionally, revenue bonds may be issued in response to certain situations. Long-term debt may be incurred for only those purposes as provided by State Statute.

## **III. ISSUANCE OF LONG TERM DEBT OBLIGATIONS**

### **A. Issuance Policies:**

All City debt shall be issued in accordance with the following policies:

#### **1. Conditions of Sale**

Unless otherwise justified, the issuance and sale of all City bonds, notes, loans and other evidences of indebtedness shall be subject to the following conditions:

- Principal and interest on all outstanding debt shall be paid in a full and timely manner;
- Debt shall be incurred only for those purposes as provided by State Statute;

- The payment of debt shall be secured by the full faith, credit and taxing power of the City, in the case of General Obligation (GO) Bonds, and by the pledge of specified, limited revenues in the case of revenue bonds. The City shall not pledge any City revenues to its conduit (EDC) bond financing. Furthermore, the City has no moral obligation to repay bondholders of conduit (EDC) financing issued under its authority;
- Principal and interest retirement schedules shall be structured to: (1) achieve a low borrowing cost for the City, (2) accommodate the debt service payments of existing debt and (3) respond to perceptions of market demand. Shorter maturities shall always be encouraged to demonstrate to rating agencies that debt is being retired at a sufficiently rapid pace;
- Debt incurred shall be limited to obligations with serial and term maturities;
- The average life of the debt incurred must be no greater than the projected average life of the assets being financed;

## 2. Methods of Sale

Debt obligations of the City shall be sold by competitive sale methods. The Finance Director shall select the method of sale based on the method which is expected to result in the lowest cost and most favorable terms given the financial structure used, market conditions, and prior experience.

### a) Competitive Sale

All City debt shall be sold through a competitive bid process.

#### (1) Bid Verification

- All bond prices shall be computed based on True Interest Cost (TIC). TIC is defined as the rate at which, as of the date of the bonds, discounts semi-annually all future payments on account of principal and interest on the bonds to the price bid, not including interest accrued to the date of delivery of the bonds.

#### (2) Award of Competitive Bids

City debt priced by competitive bid shall be sold to the bidder proposing the lowest true interest cost - TIC to the City, provided the bid conforms to the official request for proposal.

#### (3) Method of Accepting Bids

- The City shall accept bids in person or by electronic means.
- The City shall not accept bids by telephone.
- The City reserves the right to reject bids that are late or include calculation errors

(4) Good Faith deposits

All bids shall be accompanied by a good faith deposit of not less than two percent of the principal amount of the bonds. Payment of the deposit may be in the form of: a federal fund wire transfer to a City designated account, a financial surety bond, cash, cashier's check, treasurer's check or certified check drawn on, a solvent commercial bank or trust company in the United States.

The City will accept bids without a good faith deposit so long as it has received confirmation of a third party surety bond guaranteeing the receipt of a good faith deposit from the winning bidder at least 24 hours in advance of the receipt of bid.

(5) Permissible Discounts

The City may permit discount bids not to exceed 2% of any given maturity.

(6) Bidders

Financial advisors shall not be permitted to bid on competitive sales for bonds for which they serve as financial advisors.

#### **IV. SELECTION OF BOND TYPES AND STRUCTURES**

##### **A. Bond Types**

1. General Obligation (GO) unlimited and limited tax bonds

The following are general guidelines to be considered when issuing GOLT Bonds:

- a) General Obligation (both limited and unlimited) bonding should be used to finance only those assets, which have been determined to be essential in the development of the City;
- b) General Obligation (both limited and unlimited) bonding should be used only after considering alternative funding sources, such as federal and state grants and project revenues:
- c) The maturity of City GO (both limited and unlimited) bonds shall be, generally, limited to twenty years or less but may, depending and the scope of the project and/or interest rates, may have maturities of up to thirty years:
- d) GO (both limited and unlimited) bonds shall be structured with level principal payments, where possible except in instances where projected debt service fund balances exceed the amount necessary to pay the next year's principal and interest, including the debt service on any additional bonds to be issued within that period. In that event, the first principal payment of any new series to be issued shall be increased to a level sufficient to reduce the projected fund balance, after the payment of the first year's principal and interest, to a level equal to one-twelfth

of the average annual debt service for all outstanding GO bonds. The remaining principal payments for years two (2) through twenty (20) of the new series shall be correspondingly reduced, but maintained as a level principal retirement schedule for the remaining life of the new bonds;

e) The City shall make every effort to maintain its GO bond ratings of "Aa+" - Moody's and "AA+" - Standard and Poor's;

f) Capitalized Interest – Generally, no capitalized interest shall be funded with GO bond proceeds;

g) Reserve Fund - No reserve funds shall be funded with GO bond proceeds;

h) Limitation on GO Bonds:

(1) General Purpose GO Bonds - The Constitution of the State of Michigan limits the amount outstanding general-purpose bonds to 10% of the assessed value of taxable property within the City.

i) GO debt shall not be issued to finance enterprise activity assets.

## 2. Limited Obligation Revenue Bonds

If, for some reason, the City wishes to not pledge its credit the use of revenue bonds is a means of insuring that the beneficiaries of a given improvement, where a direct benefit can be established, pay for a fair share of its amortized costs. Credit management policy, by source of pledged revenue, for each of the City's revenue bond series follows:

### **B. Permissible Bond Structures**

#### 1. Optional Redemption

Bonds shall be callable no later than eight years from the date of issuance. The City shall evaluate optional redemption provisions for each issue to assure that the City does not pay unacceptably higher interest rates to obtain such advantageous calls. If call premiums are to be paid to redeem, then those costs should be included in determining if the rules of refunding and advance refunding are met.

#### 2. Prior Redemption

The City should consider prepaying or defeasing outstanding debt when resources are identified and available to reduce its outstanding debt.

#### 4. Refunding Bonds

##### a) Purposes

The City shall consider refunding outstanding debt in order to:

- (1) Generate interest rate savings
- (2) Restructure principal and/or
- (3) Eliminate burdensome bond covenants

b) Current Refundings

- (1) Requires that the refunding escrow may not exceed 90 days; and
- (2) Unless otherwise justified, an advance refunding transaction shall require a present value savings of at least two (2) percent of the principal amount of the refunding debt being issued, have at least a net savings of \$100,000 incorporating all costs of issuance.
- (3) Refunded maturities shall not extend beyond the final refunded maturity; each year's principal shall be equal to or greater than the refunded principal payment;
- (4) Surplus monies in debt service funds or debt service reserve funds associated with the refunded bond issue may be used as a source of funds for the refunding issue.

c) Advanced Refundings

- (1) Requires that the refunding escrow duration not exceed 90 days.
- (2) Unless otherwise justified, an advance refunding transaction shall require a present value savings of at least two (2) percent have at least a net savings of \$100,000 of the principal amount of the refunding debt being issued incorporate all costs of issuance.
- (3) Refunded maturities shall not extend beyond the final refunded maturity; each year's principal shall be equal to or greater than the refunded principal payment;
- (4) Surplus monies in debt service funds or debt service reserve funds associated with the refunded bond issue may be used as a source of funds for the refunding issue.

## **V. INVESTOR AND RATING AGENCY COMMUNICATIONS**

### **A. Disclosure**

It is the City's policy to provide primary and secondary disclosure to all its bond investors on a periodic basis as required by the Securities and Exchange Commission (SEC) Disclosure Rule 15c2-12 and SEC Antifraud Provision Rule 10b-5 and Municipal Securities Rulemaking Board (MSRB) Rule G-36 as stated below:

SEC Disclosure Rule 15c2-12 requires that issuers of municipal securities undertake in a written agreement or contract for the benefit of holders of such securities to provide certain annual financial information to various information repositories.

SEC Antifraud Provisions Rule 10b-5 requires that disclosure made by issuers of municipal securities be both accurate and complete in all material respects at the time the disclosure is provided.

MSRB Rule G-36 requires filing by the broker dealer of the Official Statement within 10 days of the Bond Purchase Agreement execution.

The City acknowledges the responsibilities of the underwriting community and shall assist underwriters in their efforts to comply with SEC Disclosure Rule 15c2-12, SEC Antifraud Rule 10b-5 and MSRB Rule G-36.

#### 1. Official Statement Filing - Primary Disclosure

The City shall file its official statements with the MSRB and all nationally recognized municipal securities information repositories.

#### 2. Comprehensive Annual Financial Report (CAFR)

The City shall provide upon request, within 180 days following the end of its fiscal year, a copy of its comprehensive annual financial report and shall disseminate other information that it deems pertinent to the market in a timely manner. The City shall file its CAFR with the MSRB and all nationally recognized municipal securities information repositories.

#### 3. Annual Information Statement (AIS) - Secondary Disclosure

The City shall publish its Annual Information Statement (undertaking) within 210 days following the end of its fiscal year. The City shall file its AIS with the MSRB and all nationally recognized municipal securities information repositories, annually.

#### 4. Securities disclosure policies and practices of the City

##### a) Purpose

In connection with the issuance of certain bonds, notes, and other municipal securities, the City is required to prepare and disseminate certain disclosure information in order to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, including a requirement for continuing disclosure of annual financial information and notices of certain material events. This policy shall centralize the information dissemination process, establish appropriate controls on disclosure statements made by the City and enable the City and its enterprises to comply with Rule 15c2-12, in order to assure the City's access to the capital markets as a source of funds for necessary and useful public undertakings of the City. This policy is not intended in any way to limit any person's access to public records or information, nor to infringe upon the normal political process, in particular the right of any

elected official of the City to review, discuss, release, comment upon or criticize any information.

b) Policy

(1) The Finance Director shall be responsible for reviewing and recommending, prior to release to the public, all official statements and disclosure statements relating to municipal securities as to which the City is the issuer or an obligated person for purposes of Rule 15c2-12.

(2) No official statement relating to any municipal securities as to which the City is the issuer or an obligated person for purposes of Rule 15c2-12 shall be issued or released to the public until and unless approved in writing by the Finance Director.

(3) No disclosure statement concerning municipal securities as to which the City is the issuer or an obligated person for purposes of Rule 15c2-12 shall be made, issued or released to the public by any employee, agent or official of the City until and unless such disclosure statement and the release thereof shall be approved in writing by the Finance Director.

(4) The City shall not bind itself pursuant to an undertaking relating to securities, such as certain types of private activity bonds, as to which is not an obligated person for purposes of Rule 15c2-12. No undertaking relating to municipal securities as to which the City is the issuer or an obligated person for purposes of Rule 15c2-12 shall be binding upon the City without the written approval of the Finance Director.

(5) No disclosure statement, official statement or undertaking in respect of any municipal securities as to which the City is the issuer or an obligated person for purposes of Rule 15c2-12 that is issued or released to the public by any employee, agent or official of the City without the express written approval of the Finance Director as required by this policy shall be deemed to be a statement or undertaking by or on behalf of the City.

c) Action

Unless otherwise required by law, prior to releasing to the public any official statement or disclosure statement intended to be made public, all non-elected employees, agents and officials of the City shall report to and file with the Finance Director any such proposed disclosure statement, together with such additional information requested by the Finance Director, including certificates as to the accuracy of such disclosure statement, and each such employee, agent and official of the City shall consult with the Finance Director concerning such proposed official statement or disclosure statement.

(1) Published disclosure statements

(a) All information and documentation requested by the Finance Director that may be required to support the preparation of a disclosure statement, official statement or undertaking shall be

provided by the appropriate City departments, as identified by the Finance Director, on a timely, complete, and accurate basis.

(b) All disclosure statements, official statements and undertakings shall be compiled by the Finance Director and or any outside counsel who may also be parties to the documentation.

(2) Rating agency, investor and media communications

(a) As previously required, all communications with rating agency personnel, including responses to their periodic questions, shall be managed through and approved by the Finance Director.

(b) In order to ensure uniform market access to information that may be relevant to the valuation of the City's securities, the release of any information, whether in response to an ad hoc question or self initiated, that may be potentially relied upon by the market to impute the credit worthiness of the City's debt, whether intended for that purpose or not, shall be reviewed by the Finance Director to determine whether or not:

(i) The information is already in the public domain;

(ii) The information is a disclosure event as defined by the SEC, requiring prompt notification of the MSRB for NRMSIR filing; and

(iii) The information is full, accurate, complete and not misleading.

5. Securities disclosure policies and practices with respect to the City

a) Policy

(1) The Finance Director shall review and approve, prior to release to the public, all official statements of sale relating to the initial offering of municipal securities as to which the City is the issuer or an obligated person for purposes of Rule 15c2-12;

(2) All official statements either issued by the City, relating to any municipal securities as to which the City is the issuer, or an obligated person for purposes of Rule 15c2-12, shall be reviewed by the Finance Director prior to its release to the public;

(3) No undertaking relating to municipal securities as to which the City is the issuer or an obligated person for purposes of Rule 15c2-12 shall be binding upon the City without the formal approval of the Finance Director;

(4) Any official statement or undertaking in respect of any municipal securities as to which the City is the issuer or an obligated person for purposes of Rule 15c2-12 that is issued or released to the public by any employee, agent or official of the City without the express approval required

by this policy shall be deemed as *not* a statement or undertaking by or on behalf of the City.

b) Action

Unless otherwise required by law, prior to releasing to the public any official statement intended to be made public, the Finance Director shall provide to other City personnel for its review.

## **B. Credit Ratings**

1. The City shall make every reasonable effort to maintain or improve its underlying high quality credit ratings below;

a) General Obligation Bonds – Aa+ (Moody's) and AA+ (Standard & Poor's);

2. The City shall seek a credit rating on all new bond issues, which are being sold in the public market. However, exceptions to this requirement, such as when privately placing a security with a sophisticated investor, are permissible, if warranted by the circumstances;

3. The City shall secure ratings for all outstanding bond issues that have been advance refunded or otherwise defeased materially in advance of their maturity at the time of defeasance;

4. The City may continue to apply for credit ratings on debt which has been previously rated by one or more of the rating agencies in the past;

5. The City shall maintain a line of communications with the bond rating agencies (Moody's and Standard & Poor's), informing them of major financial events in the City as they occur. The Finance Director or his/her designee shall make all communications, oral or written, in response to requests for information.

6. The City shall report annually all financial information, including its comprehensive annual financial report after been accepted by the City, to agencies which provide credit ratings or credit enhancement for the City's outstanding debt;

7. The City shall provide full disclosure of operations to the bond rating agencies. The City staff, with the assistance of counsel, bond counsel and tax counsel, shall prepare the necessary materials for presentations to the bond rating agencies; and

8. The City either shall notify the bond rating agencies by telephone or through written correspondence when the City begins preparation for a debt issuance. After the initial contact, a formal application shall be prepared and sent along with the draft of the Official Statement relating to the bond sale to the rating agencies. This application and related documentation should be sent several weeks prior to the bond sale to give the rating agencies sufficient time to perform their review. A personal meeting with the rating agencies shall be scheduled at least once every year or whenever a major project is initiated.

## **VI. INVESTMENT OF BOND PROCEEDS**

- A. All bond proceeds of debt issues shall be invested in accordance with Federal and State laws and the City's Investment Policy.
- B. Escrow Accounts Funded with Treasury Securities - In the event that an escrow account is to be funded with open market securities, the Treasurer or designee shall competitively purchase those securities as provided for in the City's investment policy, soliciting bids from no less than three (3) independent broker/dealers.

## **VII. ARBITRAGE COMPLIANCE**

It is the City's policy to minimize the cost of arbitrage rebate and yield restriction while strictly complying with the law.

- A. The City shall maintain investment allocations by source of funds and record pro rata interest income of the bond funds monthly.
- B. Project cash flows shall be carefully planned to insure the applicability of rebate exceptions, if feasible.
- C. Rebate computations should be performed annually, but no less often than every five years until the bond proceeds are fully expended.
- D. It is the City's policy to segregate current arbitrage earnings for future payment or credit, and to enter the amount as a liability on the books.
- E. The City shall report to the IRS as required and shall make rebate payments as required by Federal law.
- F. The City shall structure its financing in such a way as to reduce or eliminate future arbitrage rebate liability, wherever feasible.

## **VIII. LEGAL AND REGULATORY REQUIREMENTS**

- A. The Finance Director and Bond Counsel shall coordinate their activities to ensure that all securities are issued in the most efficient and cost-effective manner possible.
- B. The Finance Director and Bond Counsel shall coordinate their activities to ensure that in the opinion of the Bond Counsel all securities are issued in compliance with the applicable City, State, and Federal statutes and regulations.
- C. The City's bond counsel shall review all documents related to the issuance of securities by the City.

D. A recognized bond counsel shall prepare other documents and opinions relating to the issuance of debt with extensive experience in public finance, securities regulation and tax issues.

## **IX. Adoption**

Policy adopted by the Rochester Hills City Council on July 13, 2009.