RESOLUTION NO. 7554

A RESOLUTION introduced by Mayor James A. McClinton setting forth the City of Topeka's policy for debt management.

WHEREAS, the vitality and economic prospects of a City can be measured by the service delivery potential of its infrastructure; and

WHEREAS, a significant portion of a city's ability to influence and/or encourage economic development can be measured by the adequacy of its infrastructure and its capacity to support growth; and

WHEREAS, it is the responsibility of the City Council, the City Manager and other appointed city staff, as trustees for the City of Topeka's ("City") infrastructure and physical plant and their related service delivery capacity, to:

1. Maintain the existing assets to ensure continued serviceability;

2. Provide for additions, modifications, and expansions as needed and, when possible, in reasonable anticipation of change;

3. Ensure that the costs of this effort are borne equitably by each generation of taxpayers, rate-payers, users, and other beneficiaries over a relevant period of time;

4. Employ the use of debt to complement, and not to supplant, significant recurring commitments of annual appropriations for capital purposes;

5. Act as responsible fiduciaries during their tenure as City officials, to ensure the transfer to their successors of City infrastructure, physical plant, and service delivery capacity in equal or better condition as they received them from the preceding officials; and

6. Maintain the City's sound financial position, reasonable reserves, and attractive debt position, thereby enhancing the City's corporate image, creditworthiness,

flexibility, and its related ability to meet the challenges of each new day, decade, and generation.

NOW, THEREFORE, BE IT RESOLVED by the Council of the City of Topeka, Kansas, that City Council hereby adopts the following policy to establish debt issuance and management guidelines for all debt financing for the City of Topeka.

Section 1. RESPONSIBILITY FOR DEBT MANAGEMENT

A. The primary responsibility for making debt-financing recommendations rests with the Director of Budget and Finance. In developing such recommendations, the Director of Budget and Finance shall be assisted by other City staff. The responsibilities of City staff shall be to:

1. Consider the need for debt financing and assess progress on the current Capital Improvement Budget and any other program/improvement deemed necessary by the City Manager;

2. Test adherence to this policy statement and review applicable debt ratios listed in the Debt Issuance Guidelines,

3. Review changes in federal and state legislation that affect the City's ability to issue debt and report such findings to the City Manager as appropriate;

4. Review annually the provisions of ordinances authorizing issuance of general obligation bonds of the City;

5. Review the opportunities for refinancing current debt; and

6. Recommend services by a financial advisor, bond counsel, and other debt financing service providers when appropriate.

B. In developing financing recommendations, the City staff shall consider:

1. Options for interim financing including short term and inter-fund borrowing, taking into consideration federal and state reimbursements;

2. Effects of proposed actions on the tax rate and user charges;

3. Trends in bond markets' structures;

4. Trends in interest rates; and

5. Other factors as deemed appropriate.

Section 2. TERMS

A. ARBITRAGE

With respect to municipal bonds, "arbitrage" is the profit generated by issuing bonds bearing interest at tax-exempt rates, and investing the proceeds to earn interest at higher yields. This "profit" is strictly limited by the Internal Revenue Service.

B. ARBITRAGE REBATE

Arbitrage rebate refers to the amount due to the Internal Revenue Service when funds received from the issuance of tax-exempt debt have been invested and resulted in interest earnings in excess of the computed arbitrage yield on the related tax-exempt debt.

C. GENERAL OBLIGATION BONDS

Bonds backed by the full faith and credit of the City. The taxing power securing such bonds may be an unlimited *ad valorem* tax or a limited tax, usually on real estate and personal property. A special tax rate is levied for the Bond & Interest Fund annually to pay for general obligation debt service. Because it is secured by an unlimited tax levy, this structure has strong marketability and lower interest costs.

D. REVENUE BONDS

Bonds secured by revenues generated by the operation of a City facility or program, which arise in large part from dedicated user fees. Planning for such issues generally is more complex, because future costs and revenues directly affect each other. Credit enhancements (*e.g.*, bond insurance or a letter of credit) may be needed, because of the limited source of revenues for debt service payments that may be available in outlying years.

E. SPECIAL ASSESSMENT BONDS

Bonds issued to develop facilities and basic infrastructure for the benefit of privately owned properties within the assessment district. Assessments are levied on properties benefited by the project. The issuer's recourse for non-payment is foreclosure, and the remaining debt becomes the City's direct obligation.

F. TEMPORARY NOTES

Notes are issued to provide short-term immediate financing, which is anticipated and intended to be repaid by long-term financing. This type of bridge financing has a maximum maturity of four (4) years under Kansas law.

<u>Section 3</u>. POLICIES

A. The City of Topeka projects debt requirements on a five (5) year basis to facilitate better short-term decisions in light of other priorities that may arise and to examine the long-range implications and effects of existing and contemplated debt.

B. The City does not fund current operations or routine maintenance costs from the proceeds of long-term debt. The City confines long-term borrowing and capital leases to capital acquisitions, improvements, projects, or equipment that cannot be financed from current financial resources, under the following circumstances:

1. The project is included in the City's Capital Improvement Budget;

2. The project is the result of growth-related activities within the community that require unanticipated and unplanned infrastructure or capital improvements by the City;

3. The project's useful life, or the projected service life of the equipment, will be equal to or exceed the term of the financing;

4. There are revenues sufficient to service the debt, whether from future property taxes, user fees, or other specified and reserved resources, and debt supported by user fees, special assessments or special charges shall be preferred over that supported from taxes;

5. The debt shall be primarily used to finance capital projects with a relatively long life, typically ten (10) years or longer; or

6. Any equipment to be financed is an item that is purchased infrequently, has an expected useful life of at least five (5) years, and costs one hundred thousand dollars ($100,000.00) or more.

C. In an effort to conserve statutorily limited debt capacity, the City borrows only when necessary and uses "pay-as-you-go" financing to the extent possible.

D. The City intends to maintain its overall debt burden within the following generally accepted benchmarks as established for municipalities by municipal debt rating agencies:

1. Net debt *per capita* should remain under nine hundred fifty dollars ($950.00).

2. Net debt as a percentage of estimated assessed value of taxable property within the City's corporate limits should not exceed thirteen percent (13%).

3. The ratio of debt service expenditures as a percent of governmental fund expenditures should not exceed fourteen percent (14%).

4. The debt *per capita* as a percentage of personal income *per capita* should not exceed five percent (5%).

5. The City strives to achieve, and maintain a General Fund "Fund Balance" equal to no less than ten percent (10%) of General Fund "Revenue" for the next preceding year.

E. The City strives to achieve, maintain, and, whenever possible, improve its bond credit ratings to at least the following standards:

1. General Obligation Bonds rated "Aa3;"

2. Revenue Bonds rated "A2;" and

3. General Obligation Temporary Notes rated "MIG –1."

F. The City understands that such ratings will facilitate the achievement of favorable interest rates in, and the preservation of its access to, the credit markets.

G. In general, the City adheres to the following debt guidelines:

1. When measuring its commitment to its infrastructure and related service delivery potential, the City addresses both its capital needs and its operating and maintenance requirements.

2. In the case of capital needs, when measuring inter-period equity, the City considers the allocation of any debt burden among generations that will benefit from the financed capital assets, as well as the need to distribute the financing burden over appropriate fiscal periods.

3. The City uses a "level debt service" strategy as a means to equalize the burden of its debt service assessment over time. This approach provides a slightly declining percentage of budget over time, presuming a gradually increasing budget.

4. The City maintains a minimum ratio of Combined Utility Fund revenues to annual total revenue bond debt service requirements of one hundred twenty-five percent (125%).

5. The City strives to keep the average maturity of its general obligation bonds at or below fifteen (15) years.

6. When the City finances capital projects by issuing bonds, it will amortize the debt over a term not to exceed the average useful life of the projects being financed.

7. The City reviews its outstanding debt at least annually for the purpose of determining if the financial marketplace will afford the City an opportunity to refinance long-term debt and so reduce its debt service costs. In order to consider the possible current refunding of an issue, a net present value (NPV) savings of at least three percent (3%) of outstanding principal of the refunded debt shall be the threshold expected to be achieved before proceeding with such refunding, unless

the refinancing is expected to relieve the City of other onerous obligations or significantly reduce the remaining term of the financing. The City considers advance refunding when a five percent (5%) NPV threshold is met and synthetic refunding when a seven percent (7%) NPV threshold is met.

8. Capital acquisitions, improvements, equipment, and projects are categorized into "pay-as-you-go" or "debt financing" classifications. Pay-as-you-go capital items are those with a cost of less than one hundred thousand dollars ($100,000.00), those with short asset lives of five (5) or fewer years, and those that extend the useful life of an existing capital asset for five (5) or fewer years. Debt financing capital items are limited to those major, non-recurring capital expenditures for assets or asset improvements costing more than one hundred thousand dollars ($100,000.00) and having a useful life of more than five (5) years. However, the City will use current operating funds for capital items categorized as "debt financing," whenever it is cost feasible to do so.

9. The City confines long-term debt financing to capital items with useful lives of ten (10) or more years, which cannot be financed from current revenues or fund equity. When appropriate, the City uses special assessment taxes or other user-based revenue sources to pay the costs of related debt financing, so that those benefiting from the improvements will absorb all or most of the cost of the capital item being financed.

10. The City uses State Revolving Fund (SRF) Loan programs in lieu of revenue bond financing for utility projects whenever such funds are available at more

favorable rates. The City continues to monitor bond rating agency concerns with overall utility debt levels when participating in the SRF program.

11. The City will continue to comply with SEC Rules by disclosing and updating its financial information to nationally recognized municipal securities information repositories, bondholders, and appropriate municipal debt rating agencies. The City will continue to follow a policy of full disclosure in its Comprehensive Annual Financial Report (CAFR) and in its bond offering documents.

Section 4. DEBT ADMINISTRATION AND FINANCING

A. It is the responsibility of the Financial Services Department to prepare the Preliminary and Final Official Statements as required for the City's debt offerings. The City Clerk is responsible for collecting and maintaining all supporting documentation, such as minutes of the City Council meetings and relevant resolutions and ordinances, as well as for receiving and maintaining sufficient copies of the Preliminary and Final Official Statements, and the full transcript of publicly issued debt, in accordance with Federal regulations. In the case of general obligation bonds, an estimate of the mill levy required to pay off the debt is provided to the City Council by the Financial Services Department. The Department is also responsible for assuring the City's compliance with applicable secondary market disclosure requirements.

B. The tax-exempt debt proceeds are invested in accordance with the City's investment policy. Adherence to the Internal Revenue Service guidelines on arbitrage shall be followed, which at times, may require that the investment yield on tax-exempt debt proceeds be restricted. In most cases, the investment is selected to maximize interest, with the assumption that the City will meet the IRS spend down requirements that allow for an exemption from arbitrage rebate.

C. The City uses independent, external bond counsel for all debt issues. All debt issued by the City includes a written opinion by such bond counsel affirming that the City is authorized to issue the debt, stating that the City has met all Federal and State constitutional and statutory requirements necessary for issuance, and determining the debt's Federal and State income tax status. The City's bond counsel is selected on a competitive basis.

D. The City may use an independent, external financial advisor. The use of such a financial advisor for debt issuance is at the discretion of the Director of Budget and Finance, on a case-by-case basis. For each City debt issuance, the financial advisor will provide the City with advice and guidance on structure, timing, and pricing, and prepares an analysis comparing the City's cost of financing with that of comparable sales by other issuers in the market at the time. The City's financial advisor is selected on a competitive basis.

E. Use of short-term borrowing, such as temporary notes, is undertaken until the final cost of the project is known or can be accurately projected. In some cases, projects may be funded with internal funds that will be reimbursed from proceeds of long-term debt at a future date.

F. Credit enhancement may be used if the costs of such enhancement will reduce the debt service payments on the bonds, or if such an enhancement is necessary to market the bonds.

G. The City, as a matter of policy, seeks to issue its temporary notes, general obligation and revenue bonds through a competitive sale process. In such instances where the City, through a competitive bidding for its bonds, deems the bids received as unsatisfactory or does not receive bids, it may, at the election of the City Council, enter into negotiation for sale of the bonds. In cases where the circumstances of the debt issuance are complex or out of the ordinary, a negotiated sale may be recommended to the City Council by the Director of Budget and Finance, if such a sale is allowed by State statute in the particular circumstances.

Section 5. CONDUIT FINANCINGS

A. The City may sponsor conduit financings in the form of Industrial Revenue Bonds and similar instruments for those activities (*i.e.*, economic development, housing, health facilities, etc.) that have a general public purpose, and which are consistent with the City's overall service and policy objectives as determined by the City Council.

B. All conduit financings must insulate the City completely from any credit risk or exposure and must first be approved by a City staff review committee before being submitted to the City Council for consideration. The City staff reviews the selection of the underwriter and bond counsel for the conduit debt, requires compliance with secondary market disclosure and IRS arbitrage requirements, and establishes minimum credit ratings acceptable for the conduit debt. Credit enhancement, such as insurance, may be required for certain issues. At the discretion of the Director of Budget and Finance, the City may also seek to engage its own financial advisor and/or issuer's counsel to provide advice and input on the conduit transaction at the cost of the conduit issuer.

Section 6. ARBITRAGE LIABILITY MANAGEMENT

A. Federal arbitrage legislation is intended to discourage entities from issuing tax-exempt obligations unnecessarily. In compliance with the spirit of this legislation, the City does not issue obligations except for identifiable projects with good prospects of timely initiation and completion. Temporary financing and subsequent long-term tax-exempt debt are issued timely so that debt proceeds will be spent quickly.

B. Because of the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the City may engage outside consultants to calculate potential arbitrage liability. Such consultants shall be chosen competitively.

Section 7. CREDIT RATINGS

A. The Director of Budget and Finance is responsible for maintaining relationships with the rating agencies that assign ratings to the City's debt. This effort includes providing periodic updates on the City's general financial condition, along with coordinating meetings and presentations in conjunction with each new debt issuance.

B. The City will typically obtain a credit rating on its debt from at least one of the nationally recognized public finance rating agencies. The Director of Budget and Finance will recommend whether or not a rating will be requested from more than one rating agency on a particular financing and which of the major rating agencies will be asked to provide such a rating.

C. Full disclosure of operations shall be made and open lines of communication shall be maintained with rating agencies used by the City. The Director of Budget and Finance, with assistance of City staff and the City's bond professionals, prepares the necessary materials and makes required presentations to the rating agencies.

D. The City is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, City departments and agencies, other levels of government, and the general public to share clear, comprehensible, and accurate financial information. The City is committed to meeting arbitrage rebate requirements and secondary disclosure requirements on a timely and comprehensive basis.

E. Official Statements accompanying debt issues, Comprehensive Annual Financial Reports, and continuous disclosure statements meet (at a minimum), the standards articulated by the Government Accounting Standards Board (GASB), and as promulgated under Generally Accepted Accounting Principles (GAAP). The Director of Budget and Finance is responsible for ongoing disclosure to established national municipal securities information repositories and for maintaining compliance with all disclosure standards promulgated by state and national regulatory bodies.

IT IS SO RESOLVED.

PASSED and APPROVED by City Council NOV 23 2004.

CITY OF TOPEKA, KANSAS

James A. McClinton

James A. McClinton, Mayor

ATTEST:

Iris E. Walker

Iris E. Walker, City Clerk

APPROVED AS TO FORM AND LEGALITY
DATE 11/10/04 BY

VYRES/DEBTMANAGEMENTPOLICY
11/10/04