City of Oklahoma City Debt Management Policy

I. GENERAL POLICIES

A. **<u>Use of Debt.</u>** Debt shall only be used to finance capital improvements, capital maintenance or economic development projects as authorized by the governing body of the issuer. Debt shall not be used to fund recurring expenses unless associated with capital improvements and so provided in the bond indenture.

B. **<u>Pay-As-You-Go Funding of Capital Outlays.</u>** The organization shall strive to limit debt and to fund projects on a pay-as-you-go basis when possible.

C. **<u>Capital Planning.</u>** Debt issued for the purpose of funding non-emergency capital projects shall not be authorized by the governing body unless the project has been included in its Capital Improvement Plan (CIP) or until a financial plan has been developed to repay the debt and approved by the issuer.

D. **<u>Debt Manager(s).</u>** The respective City Manager/General Manager shall appoint a Debt Manager for each issuer. The Debt Manager will manage the issuer's debt issuance as described in this policy. The Debt Manager shall also be responsible for assisting the City's Debt Coordinator with post issuance compliance with Federal, State, continuing disclosure, and other requirements as described in section IX of this policy.

E. **<u>Debt Coordinator.</u>** The City Manager shall appoint a Debt Coordinator to provide coordination between the City and its Trusts on matters related to debt management. The Debt Coordinator will be a central point of contact for investor relations and shall have centralized responsibility for post issuance compliance with Federal, State, continuing disclosure, and other requirements as described in section IX of this policy.

II. DEBT LIMITS

A. **<u>General Obligation Debt Limits.</u>** The City shall manage its GO bond program so that the amount of direct unlimited and limited tax general obligation debt outstanding at any time does not exceed 3% of the City's estimated full market value.

B. **<u>Limitations on City (General Fund) Loan Guarantees and Credit Support.</u>** As part of the City's financing activities, City resources may be used to provide credit support to other City Trusts/Authorities (moral obligations, agreements of support, or loan guarantees), as authorized by Oklahoma law, for projects that meet priority City needs. At the time of issuance, annual aggregate debt service of credits supported by the General Fund shall not exceed the lesser of the General Fund balance (Non-GAAP budgetary basis in most recent Comprehensive Annual Financial Report) or 10% of the adopted General Fund budget.

Key factors that will be considered in determining whether or not the General Fund should be used to secure a particular debt obligation will include the following:

1. Demonstration of underlying self-support, thus limiting potential General Fund financial exposure.

2. Use of General Fund support as a transition to a fully stand-alone credit structure, where interim use of General Fund credit support reduces borrowing costs and provides a credit history for new or hard–to-establish credits.

3. General Fund support is determined by the City Council to be in the City's overall best interest.

C. **Revenue-Secured Debt Limits.** The City and related Trusts may finance capital needs through the issuance of revenue-secured debt obligations. Prior to issuing revenue-secured debt obligations, the appropriate staff, will develop financial plans and projections showing the feasibility of the planned financing, required revenues needed to support the planned financing, and the impact of the planned financing on ratepayers, property owners, City Departments, and/or other affected parties. The plan shall also include stress testing scenarios for the range of potential economic conditions. For new issuers, the amount of revenue-secured debt obligations issued will be limited by the feasibility of the overall financing plan and should have a projected minimum revenue coverage ratio of at least 1.25 times annual debt service at issuance. The coverage ratio may be lower for new issuers if financial projections show this to be in the best interest of the organization, if permitted in the bond indenture, and if additional security features exist which mitigate the risk of a lower coverage ratio. Existing issuers shall have a projected revenue coverage ratio that complies with the existing bond indenture.

III. STRUCTURE AND TERM OF INDEBTEDNESS

A. **Term of Debt Debt will have a term that does not exceed the maximum term defined by state law.** State law limits the term on most general obligation bonds to 25 years and it is the general policy of the City and Trusts to limit the term of all other obligations to 30 years. Debt should be of a term, including the term of interim financing, that matches the life of the asset and where feasible should be shorter than the projected economic life. Refunding bonds should not have a term that exceeds the remaining term of the refunded bonds except for cases of financial distress.

B. **Principal Repayment Structure.** To the extent possible, repayment of debt should be structured so as to rapidly pay down principal. General Obligation debt should be structured with level principal in accordance with state law. However, General Obligation bonds, including refunding bonds, may be structured to wrap around existing obligations or to achieve other goals of the organization, as permitted by state law.

Revenue bonds may use a level prinicipal or other rapidly amortizing structure where possible. However, a level payment structure is permissible in order to match debt service with projected revenues used to pay debt service. Increasing payment structures, back loaded principal, balloon structures, or long periods of interest only payments should generally not be used. However, these structures may be used to wrap around existing obligations or where a financial plan has determined this to be in the best interest of the organization.

C. **Use of Long Term Variable-Rate Debt.** Generally, the City and related Trusts shall use fixed rate debt instruments for long term financing. When appropriate, securities may be issued that pay a rate of interest that varies according to a pre-determined index/formula or results from a periodic remarketing of the securities. Prior to issuing variable rate debt, the governing body of the issuer shall approve a plan to address interest rate risk associated with these instruments. As a practice, interest rate swaps will not be used in concert with variable rate debt to produce synthetic fixed rate debt. Any proposal to use such a structure will be reviewed by the respective debt manager and the municipal advisor.

D. **Use of Subordinate Lien Obligations.** Subordinate lien financing structures, where appropriate, may be used based on the overall financing needs of the issuer, expected credit ratings, relative cost of a subordinate lien structure, and potential impacts on the issuer.

IV. SHORT-TERM DEBT AND INTERIM FINANCING

A. **Lines of Credit.** The City or related Trusts may enter into agreements with commercial banks or other financial entities for purposes of acquiring lines of credit that shall provide access to credit under terms and conditions as specified in such agreements. Before entering into any such agreements, a financial plan will be approved by the governing body of the issuer to include plans for addressing long-term financing and interest rate risk. The plan should also have a projected amortization.

B. **Bond Anticipation Notes.** The City or related Trusts may choose to issue Bond Anticipation Notes as a source of interim financing. Before issuing such notes, a financial plan will be approved by the governing body of the issuer to include plans for addressing long-term financing and interest rate risk.

C. **Tax and Revenue Anticipation Notes.** The City or related Trusts may choose to issue Tax and Revenue Anticipation Notes. Before issuing such notes, a financial plan will be approved by the governing body of the issuer including cashflow projections and stress testing of revenues and, if applicable, plans for addressing long-term financing and interest rate risk.

D. **Commercial Paper.** Commercial paper may be issued as a source of interim financing for capital improvements. A financial plan will be approved by the governing body of the issuer to include plans for addressing long-term financing and interest rate risk.

V. SELECTION OF FINANCE CONSULTANTS AND SERVICE PROVIDERS

The respective Debt Manager shall be responsible for establishing a solicitation and selection process for securing professional services that are required to develop and implement the organization's debt program. The solicitation and selection process for such services will comply with City or Trust requirements for such services, including procurement requirements, such as the Guidelines and Procedures for Professional Consultant Selection, if appropriate.

A. **Bond Counsel.** The Municipal Counselor's Office, the Debt Coordinator, and the respective Debt Managers will work together, in accordance with procurement policies, to solicit, select, contract for, and oversee continuation of competent bond counsel services throughout the life of outstanding bonds.

B. **Underwriters.** The respective issuer, shall solicit formal proposals for underwriting services for all debt issued in a negotiated or private placement sale. The solicitation process shall include formation of a review committee to evaluate written proposals and, if deemed necessary, conduct oral interviews. The selection of underwriters may be for an individual or series of financings or a specified time period. The book running senior manager and co-manager(s) will be determined through the selection process.

C. **Municipal Advisor (Financial Advisor).** A committee, including the Debt Coordinator and Debt Managers of issuing entities with capital financing needs, shall make recommendations to the governing body of the issuing entity regarding the selection of municipal advisors to be employed and the duration of such employment. The time period for employment may relate to an individual or a series of financings, or for a specified period of time. The municipal advisor shall be a registered independent advisor and in no case will the advisor's firm or affiliates be allowed to underwrite bonds for the City or related Trusts.

D. **Other Service Providers.** The respective Debt Manager or the appropriate City/Trust staff shall solicit for providers of other services necessary to carry out the debt issuance activities of the City and related Trusts. Solicitation of these services may also be accomplished through Bond Counsel or the Municipal Advisor if the contract allows. The cost and perceived quality of service of the proposed service provider shall be used in the evaluation of these services. Potential service providers include:

a. Disclosure Counsel
b. Tax Counsel
c. Paying Agent
d. Escrow Agent
e. Trustee Bank
f. Verification Agent
g. Printing Services
h. Other

VI. METHOD OF SALE

A. **Competitive Sale.** General Obligation new money bonds, in accordance with state law, shall be issued by competitive sale. Any other debt issuance, including General Obligation refunding bonds, may be done through a competitive sale where it is determined that a competitive sale is the best method to achieve a lower interest cost and/or to effectively market the debt.

B. **Negotiated Sale.** Debt, except for General Obligation new money bonds, may be sold through a negotiated sale where it is determined to be the best method to achieve a lower interest cost and/or effectively market the debt. Such determination may be made on an issue by issue basis, for a series of issues, or for part or all of a specific financing program. Selection of the underwriting team shall be made pursuant to selection procedures set forth in the Debt Policy, consistent with purchasing policies.

C. **Private Placement.** Debt may be sold through a private placement or limited public offering where it is determined to be in the best interest of the City or related Trust. Private placements may be done with or without a placement agent. Solicitations for financing terms of a private placement, or selection of a placement agent (if used) shall be made pursuant to a public request for proposals or through selection procedures developed by the respective Debt Manager, consistent with purchasing policies.

VII. REFUNDING OF CITY INDEBTEDNESS

A. **Debt Service Savings--Advance Refundings.** The City or related Trust may issue advance refunding bonds (as defined for federal tax law purposes) when legally permissible, prudent, and net present value savings equals or exceeds three percent. An analysis should be considered of the net present value savings benefits of executing the advance refunding versus waiting to refund in the future considering possible lower interest rates, lower escrow costs, and shorter yield curves.

B. **Debt Service Savings--Current Refundings.** The City or related Trust may issue current refunding bonds (as defined for federal tax law purposes) when legally permissible, prudent, and present value savings, net of issuance costs, are deemed to be sufficient to justify the refunding.

C. **Restructuring of Debt.** The City or related Trust may choose to refund outstanding indebtedness when existing bond covenants or other financial structures impinge on prudent and sound financial management. Savings requirements for current or advance refundings undertaken to restructure debt may be waived upon a finding that such a restructuring is in the overall best financial interest of the City or related Trust.

VIII. CREDIT RATINGS

A. **Use of Rating Agencies.** The Debt Manager or appropriate staff of the issuing entity, in consultation with the City's or Trust's municipal advisor, shall be responsible for determining whether or not a rating shall be requested on a particular financing, and which of the major rating agencies shall be asked to provide such a rating. Rating agencies shall be selected that are well established with investors.

B. **Minimum Long-Term Rating Requirements.** No debt shall be issued that has an underlying rating below investment grade.

C. **Use of Credit Enhancement** Credit enhancement (letters of credit, bond insurance, surety bonds, etc.) may be used when such credit enhancement proves cost-effective. Selection of credit enhancement providers shall be subject to a competitive bid process. Credit enhancement may be used to improve or establish a credit rating on a debt obligation even if such credit enhancement is not cost effective if the use of such credit enhancement meets the organization's debt financing goals and objectives.

IX. CONTINUING DISCLOSURE, POST ISSUANCE COMPLIANCE AND COVENANTS

The City and related Trusts shall have a Post Issuance Compliance Procedure, administered by the City's Debt Coordinator and the respective Debt Managers, that shall ensure a system has been established to meet any post issuance compliance requirements related to debt. These requirements may include:

- Compliance with federal tax code
- Compliance with other state and federal law
- Continuing disclosure requirements
- Bond indenture requirements and covenants

X. DERIVATIVE PRODUCTS

The City and related Trusts, as a practice, will not use derivative products in financing transactions. Any proposal to use such instrument shall be reviewed by the respective Debt Manager and municipal advisor.

XI. INVESTMENT OF BOND PROCEEDS

Bond proceeds, including reserve funds, shall be invested in accordance with applicable investment policies, bond indenture requirements, and State and Federal law.

XII. ANNUAL REPORTING

The respective Debt Coordinator shall report annually to the City Council regarding the City and related Trusts' outstanding debt and debt program. While the majority of this information is provided in year end financial reports, the annual report from the Debt Coordinator shall, at a minimum, include the following:

- Total outstanding debt of the City and related Trusts
- Debt per capita (GO Debt and Total Debt for all Trusts)
- GO Debt per full market value and net assessed value
- Summary of credits supported and/or guaranteed by the City
- Coverage ratios for all Revenue Bonds
- Potential upcoming debt issuance
- Any material events that have occurred in the past year