

City of Lodi

Debt Management Policy

Adopted November 7, 2012
Revised November 18, 2015

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 borrowings, achieving the lowest possible cost of capital within prudent risk parameters.

Priorities of the Policy are:

1. Achieve the lowest cost of capital;
2. Maintain a prudent level of financial risk;
3. Preserve future financial flexibility;
4. Maintain full and complete financial disclosure and reporting;
5. Obtain highest practical credit ratings and good investor relations; and
6. Ensure compliance with state and federal laws and regulations.

The Policy shall govern, except as otherwise covered by the Investment Policy, the issuance and management of all debt and lease financings 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 the 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 Lodi Municipal Code.

Responsibility for managing and coordinating all activities related to the structure, issuance and administration of all long- and short-term debt obligations shall rest with the Deputy City Manager/Internal Services Director.

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

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

The Deputy City Manager/Internal Services Director shall conduct an annual review of this Policy 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 financings can be marketed with investment grade credit ratings.
 - b. Market conditions present favorable interest rates and demand for the City financings.
 - c. A project is mandated by state or federal requirements, and current resources are insufficient or unavailable to fully fund the project.
 - d. The project is immediately required to meet or relieve capacity needs or emergency conditions and current resources are insufficient or unavailable.
 - e. 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.

It is the City's goal to maintain debt service coverage ratios for enterprise funded debt at least 0.50% greater than the coverage ratio specified in the bond covenants for each issue.

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. Debt shall not be issued for a term that exceeds the useful life of the debt-financed asset.
- 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 amortization for each debt issue. Notwithstanding the above, back loading of debt service will be evaluated as the circumstances dictate. Back loading occurs when debt service 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, the method of sale for such debt and the practices for obtaining professional assistance in the debt issuance process.

- 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. 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.
- D. Method of Sale – Debt is typically issued under either a competitive sale or a negotiated sale. The City shall have the flexibility to determine which method of sale

is appropriate for each debt issuance. Determination of the appropriate method of sale will rest collectively with the City Manager, Deputy City Manager/Internal Services and City Attorney.

- E. Private Placement - The City may determine that private placement of debt is most appropriate. Use of private placement will be considered collectively by the City Manager, Deputy City Manager/Internal Services and City Attorney.
- 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, Deputy City Manager/Internal Services and City Attorney on a case-by-case basis.
- G. Selection of Financing Professionals – Selection of financing professionals (financial advisor, underwriter, bond counsel, disclosure counsel, trustee, etc.) shall generally be on a competitive basis; however, the City Manager is authorized to select financing professionals on a sole source basis. Selection shall balance service (experience, professional reputation and capabilities) with costs. Once selected, the Financial Advisor may assist the City with selecting the rest of the members of the financing team.

Section 6 – Debt Structure

- A. Credit Ratings - The City seeks to obtain and maintain the highest possible credit ratings 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. Derivatives - Derivative products may have application with regard to certain City borrowing programs. The City Manager, Deputy City Manager/Internal Services Director and 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.
- 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.

Section 7 - 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. The fund(s) from which the money is borrowed shall be repaid with interest at the average earnings rate of the City investment pool. Interfund borrowing extending for more than one year will be brought to Council for approval.

Section 8 - Debt Administration

The Deputy City Manager/Internal Services 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; and
- E. Ensure compliance with the Investment Policy and bond documents regarding investing bond proceeds.

Section 9 – Disclosure

The Deputy City Manager/Internal Services Director shall be the Disclosure Coordinator of the City (the Disclosure Coordinator).

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 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 to file notices of certain events with EMMA.

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, and
- 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.

The Disclosure Coordinator shall arrange for disclosure training sessions conducted by the City's disclosure counsel. Such training sessions shall include education on disclosure practices, the City's disclosure obligations under applicable federal and state securities laws and the disclosure responsibilities and potential liabilities of members of the City's staff and members of the City Council. Such training sessions may be conducted using a recorded presentation.