

**Adopted via City Council Resolution 031218-C**

**City of Alabaster  
Debt Management Policy**

**I. Policy Statement**

In managing its debt, it is the City's policy to:

- Achieve the lowest cost of capital
- Ensure high credit quality
- Assure access to the capital credit markets
- Preserve financial flexibility
- Manage interest rate risk exposure

**II. Goals & Objectives**

The following policies are enacted to standardize and rationalize the issuance and management of debt by the City of Alabaster. The objective is to establish conditions for the use of debt and to create procedures and policies that minimize the City's debt service and issuance costs, retain the highest practical credit rating, maintain full and complete financial disclosure, and comply with reporting and federal tax compliance. The policies apply to all general obligation debt issued by the City of Alabaster, including leases, debt guaranteed by the City, and any other forms of taxable and tax-exempt indebtedness. The City also has a separate set of post issuance compliance policies for tax-exempt indebtedness adopted November 16, 2017.

Regular, updated debt policies can be a valuable tool to ensure the use of the City's resources to meet its commitments to provide needed services to the citizens of Alabaster and to maintain sound fiscal management practices. These policies are therefore guidelines for general use, and allow for exceptions in extraordinary conditions.

These policies have been adopted by the City Council by resolution. The Debt Management Policies of the City can be adjusted at any time by resolution of the City Council.

**III. Credit Quality & Credit Enhancement**

The City's debt management activities will be conducted to receive the highest credit ratings possible, consistent with the City's financing objectives. The Finance Director will be responsible for maintaining relationships and communicating with the rating agencies that assign ratings to the City's debt. The Finance Director will provide the rating agencies with periodic updates of the general financial condition of the City. Full disclosure of operations and open lines of communication shall be maintained with the rating agencies. The City shall prepare presentations to the rating agencies to assist credit analysts in making an informed decision. The Finance Director shall be responsible for determining whether a rating shall be requested on a financing, and which of the major rating agencies will be asked to provide such rating.

The Finance Director will periodically make credit presentations to the City Council explaining the City's current rating, rating agency views on the City's performance, and

current items which may affect the City's General Obligation credit rating. These presentations will be made at the discretion of the Finance Director but will occur no less often than once every two years.

The City will consider the use of credit enhancements on a case-by-case basis, evaluating the economic benefit versus the cost for each case. Only when clearly demonstrable savings can be shown will an enhancement be considered. The City will consider each of the following enhancements as alternatives through evaluation:

**1. Bond Insurance**

The City may purchase bond insurance when such a purchase is deemed prudent and advantageous for negotiated sales. The predominant determination shall be based on such insurance being less costly than the present value of the difference in the interest on insured bonds versus uninsured bonds.

**2. Letters of Credit**

The City may enter into a letter-of-credit (LOC) agreement when such an agreement is deemed prudent and advantageous. The City will prepare and distribute a request for qualifications to qualified banks or other financial institutions which includes terms and conditions that are acceptable to the City.

**IV.**

**Debt Affordability**

The ratios and standards identified below are intended to provide guidelines which permit and facilitate long-term access to capital while ensuring the financial leveraging decisions do not negatively impact the City's annual operations:

- Net Direct Debt divided by Operating Revenues < 3.00X

*As defined by Moody's US Local Government General Obligation rating methodology dated December 16, 2016.*

- Net Direct Debt divided by Full Value < 4.00%

*As defined by Moody's US Local Government General Obligation rating methodology dated December 16, 2016.*

- Total Governmental Funds Debt Service as a percent of Expenditures < 25%

*As defined by Standard & Poor's U.S. Local Governments General Obligation Ratings: Methodology and Assumptions dated September 12, 2013.*

- Net Direct Debt as a percent of Governmental Funds Revenue < 180%

*As defined by Standard & Poor's U.S. Local Governments General Obligation Ratings: Methodology and Assumptions dated September 12, 2013.*

The Finance Director will calculate the indicative ratings per Moody's and S&P's applicable local criteria no less than once a year and present the ratios to the Mayor and City Council.

## **V. Bond Structure**

The City shall establish all terms and conditions related to the issuance of bonds and will invest all bond proceeds pursuant to the terms of the City's Investment Policy. The following shall serve as the Policy for determining debt structure:

### **1. Term**

All capital improvements financed through the issuance of debt will be financed for a period not to exceed the useful life of the improvements, and in consideration of the ability of the City to absorb additional debt service expense within the debt affordability guidelines, but in no event, will the term exceed thirty (30) years.

### **2. Capitalized Interest**

From time to time certain financings may require the use of capitalized interest from the issuance date until the City has beneficial use and/or occupancy of the financed project. Interest may be financed (capitalized) through this period if it is determined that doing so is beneficial to the financing by the Finance Director.

### **3. Debt Service Structure**

General Obligation debt issuance shall be planned to achieve relatively level debt service or principal amortization considering the City's outstanding debt obligations, while matching debt service to the useful life of facilities. The City shall avoid the use of balloon maturities, absent sinking fund requirements, except in those instances where the maturities serve to make existing overall debt service level or to match a specific income stream. Debt which is supported by project revenues and is intended to be self-supporting will be structured to achieve level proportional coverage to expected available returns.

### **4. Call Provisions**

In general, the City's securities will include a call feature no later than ten (10) years from the date of delivery of the bonds. The City will avoid the sale of long-term non-callable bonds.

### **5. Original Issuance Premiums & Discounts**

Bonds with original issuance discounts and premiums will be permitted.

### **6. Structured Products**

It is the City's goal to avoid structured products as a hedge against interest rate risk, but the City reserves the right to use such products as a method to lower its cost of borrowing if it is determined in the best interest of the City. Structured products will comply with state guidelines and the City will be able to quantify and understand the potential risks or to achieve fixed and/or variable rate exposure targets. Under no circumstance will the City use structured products for speculative purposes.

## **VI. Types of Debt**

When the City determines the use of debt is appropriate, the following criteria will be utilized to evaluate the type of debt to be issued:

### **1. General Obligation Bonds**

The City may issue general obligation bonds supported by the full faith and credit of the City. General Obligation bonds shall be used to finance capital projects that do not have independent creditworthiness and significant ongoing revenue streams.

The City may also use its General Obligation pledge to support other revenue-supported bond issues, if such support improves the economics of other bond issues and is used in accordance with these guidelines.

### **2. Revenue Bonds**

The City may issue revenue bonds, where repayment of the debt service obligations of the bonds will be made through revenues generated from specifically designated sources. Revenue bonds will typically be issued for capital projects which can be supported from project or enterprise-related revenues.

### **3. Capital Leases**

The City may use capital leases to finance short-term capital purchases.

## **VII. Debt Duration**

When the City determines the use of debt is appropriate, the following criteria will be utilized to evaluate the duration of debt to be issued:

### **1. Long-Term Debt (maturing after 3 years)**

The City may issue long-term debt where it is deemed the capital improvements should not be financed from current revenues or short-term borrowings. Long-term borrowing will not be used to finance current operations or normal maintenance. Long-term debt will be structured such that the financial obligations do not exceed the expected useful life of the project.

### **2. Short-Term Debt (maturing within 3 years)**

Short-term borrowing may be utilized for the construction period of a long-term project, for the purchase of capital equipment, or for the temporary funding of anticipated revenues. Short-term debt used to fund capital equipment purchases will be structured such that the financial obligations do not exceed the expected useful life of the equipment.

## **VIII. Interest Rates**

When the City determines the use of debt is appropriate, the following criteria will be utilized to evaluate the interest rate on the debt issued:

### **1. Fixed Rate Debt**

To maintain a predictable debt service burden, the City will give preference to debt that carries a fixed interest rate.

### **2. Variable Rate Debt**

It is the City's goal to avoid using variable rate unless extenuating circumstances necessitate the use of variable rate debt to maintain a debt profile consistent with the City's overall debt strategy. If the City determines that the use of variable rate debt is necessary, the percentage of variable rate debt outstanding shall not exceed 20% of the City's total outstanding debt and will take into consideration the amount and investment strategy of the City's operating cash. The following circumstances may result in consideration of issuing variable rate debt:

- a. Construction period funding
- b. Interest rates above historic averages
- c. Variable revenue streams for a project that are anticipated to move in the same direction as market-generated variable interest rates.
- d. As a budgetary safeguard in place to prevent adverse impacts from interest rate shifts.

## **IX. Refinancing of Outstanding Debt**

The Finance Director with assistance from any Financial Advisor or Bond Underwriter engaged by the City shall have the responsibility to analyze outstanding bond issues for refunding opportunities. The Finance Director will consider the following issues when analyzing possible refunding opportunities:

### **1. Debt Service Savings**

In general, advance refunding's for economic savings will be undertaken when a net present value savings of at least three percent (3%) of the refunded bond principal amount. This present value savings will be net of all costs related to the refinancing. Refunding which produces a net present value savings less than three percent (3%) will be considered on a case-by-case basis. If it is determined that the City wants to undertake a refunding for the purposes of debt service savings and the resulting net present value savings is less than three percent (3%) the Finance Director will document in writing the reasons for such a deviation from the policy above and will present that document to City Council for consideration.

## **2. Restructuring for Economic Purposes**

The City will refund debt when it is in the best financial interest of the City to do so. Such refunding will be limited to restructuring debt to meet unanticipated revenue expectations, mitigate irregular debt payments, or remove unduly restrictive bond covenants.

## **3. Term of Refunding**

The City will refund bonds within the term of the originally issued debt unless the Finance Director considers a maturity extension necessary to achieve a desired outcome. The Finance Director may also consider shortening the term of the originally issued debt to realize greater savings.

# **X. Methods of Issuance**

The City may use any of the following methods for issuance of debt and will determine the method of issuance on a case-by-case basis.

## **1. Competitive Sale**

In a competitive sale, the City's bonds shall be awarded to the bidder providing the lowest true interest cost as long as the bid adheres to the requirements set forth in the official notice of sale.

## **2. Negotiated Sale**

The City recognizes that often securities are best sold through negotiations. In consideration of a negotiated sale, the City shall discuss the situation on a case-by-case basis with a qualified bond underwriter to determine the best course of action.

## **3. Private Placement**

From time to time the City may elect to privately place its debt. Such placement shall only be considered if this method is determined to result in a cost savings to the City relative to other methods of debt issuance.

# **XI. Underwriters**

## **1. Underwriter Selection**

The Mayor and City Council or their designee shall select a qualified underwriter for bond issuance. The selection criteria shall include but not be limited to the following:

- a. The firm's ability and experience in managing municipal transactions
- b. Prior knowledge and experience with the City
- c. Quality and experience of personnel assigned to the City's engagement
- d. Financing ideas presented
- e. Fee

## **2. Evaluation of Underwriter Performance**

The Finance Director with the assistance of the Mayor and City Council will evaluate each bond sale after completion to assess the underwriter's performance based on the cost of issuance including underwriter's compensation as well as the pricing of the bonds and overall interest cost on a maturity-by-maturity basis.

## **XII.**

### **Bond Counsel**

The City will retain external bond counsel for all debt issues. All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the debt, stating that the City has met all statutory requirements necessary for issuance, and determining the debt's federal income tax status. The bond counsel retained must have comprehensive municipal debt experience and a thorough understanding of State law as it relates to the issuance of municipal debt.

## **XIII.**

### **Disclosure**

The City will provide annual financial and economic information to the Electronic Municipal Market Access (EMMA) facility of the Municipal Securities Rulemaking Board (MSRB). The City will also notify the MSRB of any of the material events as deemed necessary by the MSRB.

## **XIV.**

### **Debt Policy Review**

The debt policy guidelines outlined herein are only intended to provide general direction regarding the future use and execution of debt. The City maintains the right to modify these guidelines by City Council resolution and may make exceptions to them given the exception is documented in writing and achieves the goals of the City. This policy will be reviewed no less frequently than biannually. At that time the Finance Director will consider any recommendations for any amendments, deletions, additions, improvements, or clarifications.