DEBT MANAGEMENT POLICY

Overview

The goal of the City's debt policy is to maintain a sound fiscal position; thereby ordinarily only utilizing long-term debt to provide resources to finance needed capital improvements, while accumulating adequate resources to repay the debt. Using debt financing to meet the capital needs of the community must be evaluated according to two tests - efficiency and equity. The test of efficiency equates to the highest rate of return for a given investment of resources. The test of equity requires a determination of who should pay for the cost of capital improvements. In meeting the demand for additional capital facilities, the City will strive to balance the load between debt financing and "pay as you go" methods. The City realizes failure to meet the demands of growth may inhibit its continued economic viability, but also realizes too much debt may have detrimental effects. Through the rigorous testing of the need for additional debt-financed facilities and the means by which the debt will be repaid, the City will strike an appropriate balance between service demands and the amount of debt.

Purpose of Debt Issuance

The City is permitted to issue any form of debt that does not contradict the existing Constitution and laws of the State of Georgia. These include, but are not limited to:

- General Obligation Bonds
- Revenue Bonds
- Intergovernmental Contracts
- Lease Purchases / Certificates of Participation
- Temporary Loans

The City is authorized by the Constitution and laws of the State of Georgia to issue general obligation bonds not to exceed 10% of the assessed value of all taxable property within the City. Lease-purchase financing and intergovernmental contract financing are not counted within the 10% test. However, the City will remain cognizant of the millage assessed for repayment of general government debt and will strive to maintain a stable millage in the debt service area for the benefit of its taxpayers. Special assessment, dedicated revenue and other self-supporting bonds will be utilized, when feasible.

The City's enterprise funds may issue revenue bonds and other long-term debt secured by enterprise revenues so long as annual obligations are covered 1.2 times by pledged revenues. When possible, the City will seek to "pay-as-you go" of project costs by maintaining adequate rate structures to support this target.

The City may use lease-purchase financing for the provision of new and replacement equipment, vehicles and rolling stock to ensure the timely replacement of equipment and vehicles and to decrease the impact of the cost to the user department by spreading the costs over several years. For purposes of securing credit ratings and monitoring annual debt service as a percentage of operating expenditures, lease-purchase financing is considered a long-term liability of the City and therefore will be issued under the same conditions as long-term debt.

Where cost-effective, the City may choose to issue temporary loans between funds to finance short-term capital needs. Such interfund loans can be seen as an alternative investment of temporarily surplus City funds, which normally would be invested at a short-term rate as part of the City's pooled investment program. In approving any such interfund loan, the City Council will adopt a resolution that sets forth the conditions of the loan, which will include the interest rate and term of the loan. Careful analysis will be performed on the lending fund's working capital to assure adequate cash flow will remain after the money is transferred to the borrowing fund.

Conditions for Using Debt

Debt financing of capital improvements will be done only when the Mayor and City Council determine that such financing is in the best interest of the City.

Sound Financing of Debt

When the City utilizes debt financing, it will ensure that the debt is soundly financed by:

1. Conservatively projecting the revenue sources that will be used to pay the debt;
2. Financing the improvement over a period not greater than the useful life of the improvements; and
3. Determining the benefits of the improvement exceeds the costs, including interest costs.

Debt Structure

A. Debt Service Levels: City general obligation bonded indebtedness must be voter-authorized and is payable via the Debt Service Fund from voter-authorized designated special purpose local option sales tax and unlimited ad valorem taxes. Debt service obligations via the General Fund consist of lease obligations, intergovernmental contract obligations, etc. Generally, borrowings by the City will be of a duration that does not exceed the economic life of the capital improvement that it finances and should be structured to minimize interest cost. The City will also structure the repayment of debt to consider future financing needs and debt service requirements. While it is the general preference to utilized level repayment structures, the City may consider structured or wrapped debt service amortization when such structuring is beneficial to the City's overall amortization schedule, when the benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present, or when such structuring will allow debt service to more closely match anticipated revenues/receipts. The City will design the repayment of debt so as to recapture its funding capacity as quickly as feasible while maintaining budgetary flexibility.

B. Length of Debt: Debt will be structured for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users and consistent with the useful life of the assets to be financed.

C. Variable Rate Debt: The City strives to not utilize variable rate debt. However, should it ever decide to do so, the City may choose to issue securities that pay a rate of interest that varies according to pre-determined formula or results from a periodic remarketing of the securities, consistent with state law and covenants of pre-existing bonds, and depending on market conditions. The City will have no more than 15 percent of its outstanding debt in variable-rate form.

D. Refunding: Periodic reviews of all outstanding debt will be undertaken to determine refunding or refinancing opportunities. Refunding will be considered, within federal tax law constraints, if and when there is a net economic benefit of the refunding or the refunding is essential in order to modernize covenants essential to operations and management. In general, refunding for economic savings will be undertaken when a net present value savings of at least three percent (3%) of the refunded principal can be achieved. A current refunding that produces a net present value savings of less than three percent (3%) will be considered on a case-by-case basis. A refunding with negative present value savings will not be considered unless there is a compelling public policy objective.

Debt Administration and Process

Depending upon conditions at the time, the City may elect to sell its bonds via negotiated sale, competitive sale, private placement, or other method. As dictated by the method of sale, the City Administrator (or designee) shall have the authority to select professionals (underwriters, bond counsel, financial advisors, escrow agents, verification agents, trustees, arbitrage consultants, etc.) as necessary to meet legal requirements and minimize net City debt costs. The City Administrator (or designee) may select such firm(s) related to debt issuance with or without a proposal process.

Post-Issuance Debt Management

Post-Issuance debt management is a key component to the immediate and long-term success of the City's financial objectives. A successful debt management program begins with comprehensive information on the current debt program status and definition of the future direction of the City's capital financing objectives.

A. Disclosure: Disclosure is both a regulatory requirement and a highly advisable means to enhance the marketing of the City's bonds. The Securities and Exchange Commission (SEC) regulates both primary disclosure (the initial marketing of a bond issue) and continuing disclosure (the ongoing information to the market about the status of the issue and issuer). The regulations place responsibility for primary disclosure on underwriters, and on issuers, like the City, for continuing disclosure. Failure by the City to properly manage primary disclosure and to timely provide its continuing disclosure may have adverse impacts on its credit ratings and access to the tax-exempt capital market. It may also subject the City to regulatory actions from both the SEC and IRS.

   The City will strive to timely meet all substantive requirements in its annual continuing disclosure filings, which include making the City's Annual Comprehensive Financial Report (ACFR) available to the public within the time frame provided in Continuing Disclosure Agreements executed in conjunction with various debt issues. In the event a 'material event' occurs requiring immediate disclosure, the City will ensure information flows to the appropriate disclosure notification parties.

B. Investment of Bond Proceeds: The investment of bond proceeds requires significant diligence in meeting the objectives of regulatory compliance, the management of the flow of funds described in bond documents, and the needs of the projects being funded. The investment of bond proceeds should be considered at the outset of every debt issuance and integrated throughout the process. Investment of bond proceeds shall be undertaken in conjunction with the City's adopted Investment Policy.

C. Federal Arbitrage and Rebate Compliance. The City will fully comply with federal arbitrage and rebate regulations. Concurrent with this policy, the City will take all permitted steps to minimize any rebate liability through proactive management in the structuring and oversight of its individual debt issues. All of the City's tax-exempt issues, including lease purchase agreements, are subject to arbitrage compliance regulations.