



City of Chamblee Debt Management Policy

Introduction

The Debt Management Policy has been created to provide strategic oversight and parameters for City of Chamblee elected officials and staff when issuing and managing debt. Considerations in this policy include specific capital improvements, the City's ability to repay financial obligations, and existing legal, economic, financial, and debt market conditions. This framework allows the City to make informed financial and borrowing decisions. This policy should be utilized as tools to ensure that adequate financial resources are available to support the City of Chamblee's long-term capital needs.

Purpose

The objective of this policy is to guide City elected officials and staff as they consider the proper use of debt to fund capital projects. The policy will be reviewed on an annual basis by the City Manager and Finance Director or their designee. Any substantive modifications to this policy must be approved by City Council.

The City of Chamblee recognizes that, in order to maintain flexibility in responding to changing service priorities, revenue inflows, and cost structures, a debt management strategy is required. The City strives to balance service demands and the amount of debt incurred. The City realizes that failure to meet the demands of growth may inhibit its continued economic viability, but also realizes that too much debt may have detrimental effects as well.

Debt is a financing tool which should only be used when the City has legal, financial and market debt capacities and will be considered when some or all of the following conditions exist:

1. Estimated future revenue is sufficient to ensure the repayment of the debt obligation;
2. Other funding options have been considered but are not viable for the timely or economic acquisition or completion of a capital project;
3. A capital project is mandated by federal or state authorities with no other viable funding option;
4. The capital project or asset lends itself to debt financing rather than pay-as-you-go funding based on the expected useful life of the project and the City's ability to pay the debt service;

5. Debt will not be used to fund ongoing operating and maintenance expenses of the City;
6. Debt financing should not be used for enterprise activities without a designated revenue source for retiring principal and interest. The City should identify a specific source of revenue for the repayment of each debt issuance and calculate the expected impact on rates and user fees in order to maintain adequate debt service coverage and cash levels;
7. Debt should be structured that the principal will be retired over the useful life of the project financed. The City should not issue debt for a period longer than the period during which it intends to use the capital improvement being financed;
8. Total tax-supported debt as a percentage of total taxable full value will not exceed 1.75%;
9. Debt service as a percentage of Total Governmental Fund Expenditures will not exceed fifteen (15) percent, excluding any Special Purpose Local Option Sales Tax (SPLOST) debt or self-supporting debt.
10. The City will manage its cash in a manner that will prevent any borrowing to meet needed operating expenses. The City will primarily rely on current revenue cash set-asides or debt to finance capital improvement projects.

General Obligation Bonds

General Obligation (G.O.) bonds are issued in the name of the government whose repayment is guaranteed through a pledge of full faith and credit of the issuer. Per Georgia law, G.O. bonds require voter approval unless the purpose is to refund outstanding general obligation bonds to achieve debt service savings.

Another type of General Obligation bonds are Sales Tax General Obligation Bonds. This occurs when a question concerning general obligation debt is placed on the ballot for a sales tax program (i.e. Special Purpose Local Option Sales Tax – SPLOST). This policy allows the City to place a general obligation debt question on the ballot for sales tax for capital projects. If the sales tax is approved by the voters, general obligation debt can also be approved. This type of general obligation debt is payable first from sales tax and then from general funds of the issuer, if sales tax is not sufficient.

Pure Revenue Bonds

Pure Revenue bonds (i.e. not intergovernmental contract revenue bonds) can be considered as a financing source by the City when: 1) the service provided is essential to the City government and has a strong underlying revenue stream; 2) the service provided is non-essential to the City government but has a moderate underlying revenue stream; or 3) the project cannot be completed from current revenue sources or it is more equitable to finance the project over its useful life.

Redevelopment and Debt

The City may incur debt on behalf of any special district created pursuant to the Georgia Constitution. Such debt may be incurred only after the City has provided for the assessment and collection of an annual tax within the special district sufficient in amount to pay the principal and interest on such debt and has received the assent of a majority of the voters of the special district voting on the issue. The proceeds of this tax shall be placed in a sinking fund to be held on behalf of such special district and to be used exclusively to pay off the principal and interest on such debt.

Self-taxing arrangements are the preferred funding method for infrastructure within a Community Improvement District or a Tax Allocation District. Tax Increment Financing (TIF) in conjunction with such an entity and self-tax arrangements may be utilized as a funding mechanism if it is authorized and demonstrated that a sufficient rate of return to encourage private investment is not otherwise available to the developer.

Authority Debt and Conduit Financing

Authorities which are registered with the Georgia Department of Community Affairs can incur debt or credit obligations. Similarly, the City has established several authorities which have the authority to issue debt. From time to time, the City Council may consider the approval of bond documents from authorities (such as the Metropolitan Atlanta Rapid Transit Authority, Urban Redevelopment Agency, the City of Chamblee Downtown Development Authority) or other entities. The consideration of such bonds may or may not represent a financial commitment of the City. As such, the debt capacity/limitations ratios are not included in the City's measures of debt affordability unless the project is financially supported by the City. According to Georgia law, bonds, obligations, and other indebtedness incurred by development authorities do not constitute an indebtedness or obligation of the State, County or City.

Short-term Debt and Other Financing

The City shall avoid using any short-term debt to fund any operating expenses. If short-term borrowing becomes unavoidable, such as borrowing would be competitively bid using Tax Anticipation Notes (TANs).

Variable Rate Debt

When appropriate, the City may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities. The decisions to issue such securities must be reviewed and approved by the Finance Director before Mayor and Council is requested to approve their issuance.

Should the City pursue variable rate debt and enter into agreements related to the management of the interest rate, the City will follow the parameters of the agreements (security and payment provisions, risk assessment and methods for monitoring these

risks) outlined in an Interest Rate Management Plan that will be developed before entering into any such arrangement.

Debt Limits

Under Georgia Constitution's Article 9, Section 5, Paragraph I, the City has a legal debt limitation not to exceed 10% of the total assessed valuation of taxable property within the City boundaries. The legal debt margin represents the net amount of external financing resources that is available to the City through the issuance of General Obligation (G.O.) bonds. When the majority of voters in a city approve a general obligation bond referendum, they are guaranteeing the purchaser of that bond that they will pay property taxes in an amount that is sufficient to redeem the bonds upon maturity and pay the interest on the outstanding bonds.

The legal debt margin is calculated at any point in time by deducting the amount of current outstanding G.O. debt from the statutory debt limit. The reason for performing this calculation is to determine the maximum amount of new debt that could be legally issued should the need arise. Tax Anticipatory Notes (TANs) are outside of the statutory debt limit, as they are temporary loans in which communities must pay back within the calendar year. Additionally, as provided by law, the issuance of revenue bonds by the City's component units does not count against the legal debt margin.

Maintaining Credit Ratings

The city manager's office is responsible for maintaining relationships with the rating agencies that assign ratings to the city's various debt obligations. This effort includes providing periodic updates on the city's general financial condition along with coordinating meetings and presentations in conjunction with a new debt issuance.

Debt Authorization

Long-term debt should be included in the City's Capital Improvement Plan (CIP). No debt shall be issued for any capital project that is not included in the City's CIP. The Mayor and Council must approve any necessary modifications to the CIP before any debt is issued to finance a capital project. Appropriations must be made in the annual operating budget for any debt service payments (i.e., interest and principal) and reserve requirements for all debt currently outstanding.

Refinancing of Outstanding Debt

The City may contract with a Financial Advisor to monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debts. In adherence with federal tax law constraints, refunding will be considered if and when there is a net economic benefit of the refunding, the refunding is essential in order to modernize covenants or other commitments essential to operations and management, or to restructure payment schedules to optimize payments with anticipated revenue streams.

Record Keeping

All records relating to the Tax-Exempt Debt needed to comply with Section 6001 of the Internal Revenue Code of 1986, as amended (the "Code") shall be maintained. These records shall be kept in paper or electronic form and shall include, among other things, (i) basic records relating to the transaction (including the bond documents, the opinion of bond counsel, etc.), (ii) documents evidencing the expenditure of the proceeds of the Tax-Exempt Debt, (iii) documentation evidencing the use of Tax-Exempt Debt-financed property by public and private entities (e.g., copies of management contracts, leases and other use agreements) and (iv) documentation pertaining to any investment of Tax-Exempt Debt proceeds (including the purchase and sale of securities, SLG subscriptions, yield calculations for each class of investments, actual investment income received from the investment of the proceeds of the Tax-Exempt Debt, guaranteed investment contracts and rebate calculations. Such records must be maintained as long as the Tax-Exempt Debt is outstanding, plus three years after the final payment or redemption date of the respective Tax-Exempt Debt.

Use of Proceeds

A list of all property financed with the proceeds of the Tax-Exempt Debt shall be created and maintained. The use of such property shall be monitored to ensure that such use does not constitute "private business use" within the meaning of the Code. Without limiting the foregoing, each contract, including but not limited to management contracts and leases, relating to such property shall be reviewed by legal counsel prior to the execution of such contract. The list of property shall be reviewed at least annually to ensure that none of the property has been sold.

Remedial Action

In the event that property financed with the proceeds of the Tax-Exempt Debt is used in a manner that constitutes "private business use" or the property is sold, the remediation provisions of Treasury Regulation § 1.141-12 shall be carried out in consultation with bond counsel.

Yield Restriction

If bond counsel advises that a fund or account needs to be yield restricted (i.e., not invested at a yield in excess of the Tax-Exempt Debt), the moneys on deposit in such fund or account shall be invested in United States Treasury Obligations – State and Local Government Series, appropriate "yield reduction payments" shall be made if permitted by the Code or the [City Manager/Chief Financial Officer] shall establish other procedures to ensure that such fund or account is yield restricted.

Rebate

At the time the Tax-Exempt Debt is issued, the [City Manager/Chief Financial Officer] shall determine if he or she reasonably expects that one of the arbitrage rebate exceptions will be satisfied. If the arbitrage rebate exception relates to the time period

over which the proceeds of the Tax-Exempt Debt are spent, the [City Manager/Chief Financial Officer] shall verify that the appropriate expenditures have been made at each milestone. If one of the milestones is not satisfied or the [City Manager/Chief Financial Officer] does not reasonably expect that one of the arbitrage rebate exceptions will be satisfied, an outside arbitrage rebate consultant shall be retained unless the City Manager has determined that positive arbitrage will not be earned.