RESOLUTION NO. 3896

A RESOLUTION ADOPTING THE DEBT MANAGEMENT POLICY FOR THE CITY OF ALBANY.

WHEREAS, debt should not be entered into lightly, but rather as a result of careful planning and,

WHEREAS, prudent debt policies promote sound credit quality and,

WHEREAS, these policies fit within the City's overall financial policies,

NOW THEREFORE BE IT RESOLVED that the Council of the City of Albany does hereby adopt the attached Exhibit A as the Debt Management Policies of the City of Albany.

DATED this 14th day of January, 1998.

Mayor

ATTEST:

City Recorder

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City of Albany
Debt Management Policies

I. Selection of Finance Consultants and Service Providers

The City's Finance Director shall be responsible for establishing a solicitation and selection process for securing professional services that are required to develop and implement the City's debt program. Goals of the solicitation and selection process shall include encouraging participation from qualified service providers, both local and national, and securing services at competitive prices.

A. Bond Counsel. The City's Finance Director, with advice of the City Attorney shall make a recommendation to the City Council regarding the selection of Bond Counsel to be employed, and the duration of employment for individual or a series of bond financings. The solicitation and selection process for such services will comply with the Albany Municipal Code (AMC) requirements for professional services. The Council shall make such selection, taking into consideration these recommendations.

B. Financial Advisor. The City's Finance Director shall make recommendations to the City Council regarding the selection of financial advisors to be employed and the duration of such employment. The solicitation and selection process for such services will comply with the AMC requirements for professional services. The time period for such employment may relate to an individual or a series of financings, or for a specific period of time. In order to avoid real or perceived conflicts of interest, the selected financial advisory firm or individuals shall not be involved with or have any financial interest in underwriting City debt instruments in a negotiated sale during the term of the financial advisory contract.

C. Underwriters. The City's contracted Financial Advisor, in coordination with the City Finance Director, shall solicit proposals for underwriting services for all debt issued in a negotiated or private placement sale. The solicitation process used for these services shall comply with AMC for professional services. In addition, the proposed solicitation and selection process for negotiated sales as developed by the Finance Director and amended from time to time, shall also be followed. The selection of underwriters may be for an individual or series of financings or a specific time period. The Council shall make such selections taking into consideration the recommendation of the Financial Advisor and the Finance Director.

D. Paying Agent. The City's contracted Financial Advisor, in consultation with the City's Finance Director, shall solicit periodically for paying agent services from qualified commercial and trustee banks. The cost of providing such services shall be used by the Finance Director, along with other qualitative measurements, in developing a Paying Agent recommendation to the City Council, along with the terms of such agreement.

E. Other Service Providers. The Finance Director, in consultation with the Financial Advisor, shall periodically solicit for other financing service providers (escrow agents, verification agents, bond issuance companies, rating agencies, etc.). The cost of providing such services shall be used by the Finance Director in developing a recommendation to the City Council, along with the terms of the agreement.

II. Comprehensive Capital Planning and Financing System

A. Capital Planning and Financing System. The City shall develop a capital planning and financing system for use in preparing a multi-year Capital Improvement Plan (CIP) for consideration and adoption by the City Council as part of the City's budget process. Individual departments shall prepare multi-year capital plans, and coordination and preparation of the Citywide CIP shall reside with the Engineering Division of the Public Works Department, or any other department so designated by the City Manager. This plan shall be for the coming five fiscal years and shall be updated annually. The Plan shall contain a comprehensive description of the sources of funds and the timing of capital projects for future operating and capital budgets, effect of the projects on future debt sales, debt outstanding, debt service requirements, and the impact of future debt burdens and current revenue requirements. The CIP shall analyze the conformance of the planned financings with policy targets regarding the (1) magnitude and composition of the City's indebtedness, and (2) the economic and fiscal resources of the City to bear such indebtedness over the next five years.

B. Debt Calendar and Financings Priorities. It shall be the responsibility of the Finance Director, within the context of the CIP, to oversee and coordinate the timing, process of issuance and marketing of the City's borrowing and capital funding activities required in support of the Plan. In this capacity, the Finance Director shall make recommendations to the City Council regarding necessary and desirable actions and shall keep the Council informed through regular and special reports as to the progress and results of current year activities under the Plan.

C. Maintenance Replacement and Renewal. Consistent with its philosophy of keeping its capital equipment in good repair and to maximize the useful life, the City should set aside sufficient current revenues to finance ongoing maintenance needs and to provide reserves for periodic replacement or renewal.

D. Debt Authorization. No City debt issued for the purpose of funding Capital projects shall be authorized by the City Council unless it has been included in the CIP or until Council has modified the Plan. Such modification shall occur only after the Council has received a report of the impact of the contemplated borrowing on the existing CIP and recommendations as to the financing arrangements from the Finance Director.

III. Limitations on City Indebtedness

A. Target Limitations on Non-Self-Supporting Unlimited Tax General Obligation Indebtedness. The City shall, as a matter of policy, conduct its finances so that the amount of direct, non-self-supporting, unlimited tax general obligation ("UTGO") debt outstanding at any time, that is subject to approval by the voters (excluding long-term, non-self-supporting leases), does not exceed 3.0 percent of the City's taxable assessed valuation.

B. Target Limitation on Non-Self-Supporting Limited Tax General Obligation Indebtedness Full Faith and Credit Lease-Purchase Obligation. The City shall, as a matter of policy, conduct its finances so that the amount of direct non-self-supporting limited tax general obligation ("LTGO") debt and full faith and credit lease-purchase obligations outstanding at any time, that are not subject to approval by the voters, does not exceed 1.0 percent of the

City's taxable assessed valuation. Furthermore, the City shall strive to limit the annual debt service requirements on these obligations to an amount not greater than 10 percent of annual General Fund revenues. Also included within this limitation are any other loan agreements entered into directly by the City or secured indirectly by a pledge of the City's General Fund.

C. Target Limitations on Lease-Purchase Financings of Equipment and Furnishings. The City may enter into short-term lease-purchase obligations to finance the acquisition of capital equipment and furnishings with estimated useful lives of less than ten years. Outstanding lease-purchase obligations issued to finance capital equipment and furnishings shall not exceed 0.3 percent of the City's taxable assessed valuation. Repayment of these lease-purchase obligations shall occur over a period not to exceed the useful life of the asset or in any case longer than five years from the date of such obligations. The Finance Department shall be responsible for developing procedures for use by City departments interested in participating in the lease-purchase program and for setting repayment terms and amortization schedules in consultation with participating departments.

D. Limitations on Loan Guarantees and Credit Support. General Fund resources may not be used to provide credit support or loan guarantees for public or private developments except when the Council makes a special finding that it is in the public interest to do so.

E. Target Limitations on the Issuance of Revenue-Secured Debt Obligation. The City shall seek to finance the capital needs of its revenue producing enterprise activities through the issuance of revenue-secured debt obligations. Prior to issuing revenue-secured debt obligations, the Finance Director will develop financial plans and projections showing the feasibility of the planned financing, required rates and charges needed to support the planned financings, and the impact of the planned financings on rate payers, property owners, and other affected parties. The amount of revenue-secured debt obligations issued by the City will be limited by the feasibility of the overall financing plan as determined by the Finance Director.

IV. Structure of Term of City Indebtedness

A. Rapidity of Debt Repayment. Borrowing by the City should be of a duration that does not exceed the economic life of the improvement that it finances and where feasible should be shorter than the projected economic life. The City should design the repayment of debt so as to recapture rapidly its credit capacity for future use. The City shall strive to repay the principal amount of its long-term general obligation debt according to the following schedule: at least 15 percent in five years and 40 percent in ten years. The City may choose to structure debt repayment so as to wrap around existing obligations or to achieve other financial planning goals. Such alternative structures shall be subject to the approval of the Finance Director before being recommended to the City Council.

B. Use of Variable-Rate Securities. 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 security. The decision to issue such securities must be recommended by the City's Financial Advisor and reviewed and approved by the City Manager and Finance Director before the City Council is requested to approve their issuance.

C. Pledge of Restricted Funds to Secure Debt. The City has the power to make an irrevocable pledge of a security interest in an account created exclusively for the security of holders of City obligations. Before such funds are used to secure a prospective financing, policies regarding the use of such restricted funds shall be developed by the Finance Director to ensure that the use of such funds to secure bonds does not violate restrictions on such funds, and that underlying program commitments can be maintained in addition to meeting debt service obligations on debt secured by the restricted funds. These policies shall be presented as recommendations to City Council prior to or at the time issuance of the secured debt is to be authorized.

V. Method of Sale

A. Competitive Sale. The City, as a matter of policy, shall seek to issue its debt obligations in a competitive sale, unless it is determined by the Finance Director that such a sale method will not produce the best results for the City. In such instances where the City in a competitive bidding for its debt securities deems the bids received as unsatisfactory or does not receive bids, it may, at the election of the City Council, enter into negotiation for sale of the security.

B. Negotiated Sale. When determined appropriate by the City's Financial Advisor and approved by the Finance Director, the City may elect to sell its debt obligations through a negotiated sale. 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.

C. Private Placement. When determined appropriate by the City's Financial Advisor and approved by the Finance Director, the City may elect to sell its debt obligations through a private placement or limited public offering.

VI. Short-term Debt and Interim Financings

A. Lines and Letters of Credit. Where their use is judged by the Finance Director to be prudent and advantageous to the City, the City has the authority to enter into agreements with commercial banks or other financial entities for purposes of acquiring lines or letters of credit that shall provide the City with access to credit under terms and conditions as specified in such agreements. Before entering into any such agreements, takeout financing for such lines or letters of credit must be planned for and determined to be feasible by the Finance Director. Any agreements with financial institutions for the acquisition of lines or letters of credit shall be approved by the City Council. Lines and letters of credit entered into by the City shall be in support of projects contained in the approved Capital Improvement Plan (CIP).

B. Bond, Tax, and Revenue Anticipation Notes. Where their use is judged by the Finance Director to be prudent and advantageous to the City, the City may choose to issue Bond, Tax or Revenue Anticipation Notes as a source of interim construction financing. Before issuing such notes, financing for such notes must be planned for and determined to be feasible by the Finance Director and recommended by the City's Financial Advisor. Bond, Tax or Revenue Anticipation Notes may be sold in either a competitive or negotiated sale, subject to authorization and approval by the City Council.

VII. Improvement District and Assessment Contract Financing

A. Financing Polices. The policies for the City's improvement district and assessment contract financing program shall be guided by Albany Municipal Code (AMC) Chapter 15.04.

B. Interest Rates on Improvement Assessment Loans. The contract interest rate on loans made from the proceeds of Improvement Assessment Bonds shall be equal to the effective interest rate paid on the bonds sold to finance such loans, plus an additional percentage markup to cover self-insurance and loan servicing costs. The self-insurance and loan servicing charge markup shall be adjusted annually based upon the historical improvement assessment bond collection history and consultation with the Finance Director and the City's Financial Advisor. The contract interest rate shall be determined on the day of the sale of Improvement Assessment Bonds for those assessment contracts financed with proceeds of the sale.

C. An Interim Assessment Contract Interest Rates. The interim assessment contract interest rate is nine percent per annum or at a level deemed reasonable and prudent by the Finance Director to insure that funds collected through assessment contract payments are sufficient to meet that portion of future debt service requirements on Improvement Assessment Bonds attributable to such contracts.

D. Commitment to Self-Supporting Improvement District Financings. Consistent with the concept of Improvement Assessment Financing, all of the City's Improvement Assessment indebtedness shall be self-supporting. Prior to the issuance of Improvement Assessment Bonds, the Finance Director shall ensure that the proposed Bonds meets the City's self-support requirements.

VIII. Refunding of City Indebtedness

A. Debt Service Savings - Advance Refundings. The City may issue advance refunding bonds (as defined for federal tax law purposes) when advantageous, legally permissible, prudent, and net present value savings, expresses as a percentage of the par amount of the refunding bonds, equals or exceeds five (5) percent.

B. Debt Service Savings - Current Refundings. The City may issue current refunding bonds (as defined for Federal Tax Law purposes) when advantageous, legally permissible, prudent, and net present value savings equals or exceeds $100,000.

C. Restructuring of Debt. The City 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 by the Finance Director upon finding that such a restructuring is in the City's overall best financial interest.

D. Open Market Purchase of City Securities. The City may choose to defease its outstanding indebtedness through purchases of its securities on the open market when market conditions make such an option financially feasible. The Finance Director shall be responsible for developing procedures for executing open market purchases and the savings objectives to be achieved by undertaking such actions.

IX. Use of Credit Enhancement

The City shall seek to use credit enhancement (letters of credit, bond insurance, surety bonds, etc.) when such credit enhancement proves cost effective. Selection of credit enhancement providers shall be subject to a competitive bid process developed by the City's Financial Advisor and approved by the City's Finance Director. Credit enhancement may be used to improve or establish a credit rating on a City debt obligation, even if such credit enhancement is not cost effective but in the opinion of the Financial Advisor and the Finance Director the use of such credit enhancement meets the City's debt financing goals and objectives.

X. Rebate Reporting and Covenant Compliance

The City, as a matter of policy, shall seek to avoid the need for arbitrage rebate. If however, the need arises, the Finance Director shall establish a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. This effort shall include tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the City's outstanding debt issuer. Additionally, general financial reporting and certification requirements embodied in bond covenants shall be monitored to ensure compliance with all covenants.

XI. Conduit Financings

The City may sponsor conduit financings for the Albany Hospital Authority. All conduit financings must insulate the City completely from any credit risk or exposure and must first be approved by the Finance Director before being submitted to the City Council for authorization and implementation. The City will authorize conduit financings only to the extent that it will not cause the City to exceed the $10 million "bank qualified" bond limit.

XII. Financing Proposals

Any capital financing proposal made to a City department involving a pledge or other extension of the City's credit through the sale of securities, execution of loans or leases, making of guarantees, or otherwise involving directly or indirectly the lending or pledging of the City's credit shall be referred to the Finance Director, who in a timely manner shall be responsible for analyzing and responding to the proposal.

XIV. Other Policies and Requirements

The annual audit of the City shall describe in detail all funds and fund balances established as part of any direct debt financings of the City. The audit may also contain a report detailing any material or rate covenants contained in any direct offering of the City and whether or not such covenants have been satisfied.

XV. Credit Ratings

A. Rating Agency Relationships. The Finance Director shall be responsible for maintaining relationships with the rating agencies that currently assign ratings to the City's various debt obligations. This effort shall include providing periodic updates on the City's general financial condition along with coordinating meetings and presentations in conjunction with a new debt issuance.

B. Use of Rating Agencies. The Finance Director in consultation with the City's Financial 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.

C. Minimum Long-Term Rating Requirements. The City's minimum rating requirements for its direct, long-term debt obligations is a rating of "A" or higher. If such a debt obligation cannot meet this requirement based on its underlying credit strength, then credit enhancements shall be sought to ensure that the minimum rating is achieved. If credit enhancements are unavailable or are determined by the Finance Director to be uneconomic, then the obligations may be issued without a rating.

A lower rating standard may be accepted for indirect or conduit financings, subject to the approval of the Finance Director.

XVI. Ongoing Disclosure

The Finance Director shall be responsible for providing ongoing disclosure information to established national information repositories and for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies.