RESOLUTION NO. 8818

A RESOLUTION introduced by City Manager Jim Colson setting forth the City of Topeka's policy for debt management; and rescinding resolution no 7554.

WHEREAS, the vitality and economic prospects of a City can be measured by the service delivery potential of its infrastructure; and

WHEREAS, a significant portion of a city's ability to influence and/or encourage economic development can be measured by the adequacy of its infrastructure and its capacity to support growth; and

WHEREAS, it is the responsibility of the Governing Body, the City Manager and other appointed city staff, as trustees for the City of Topeka's ("City") infrastructure and physical plant and their related service delivery capacity, to:

1. Maintain the existing assets to ensure continued serviceability;
2. Provide for additions, modifications, and expansion as needed and, when possible, in reasonable anticipation of change;
3. Ensure that the costs of this effort are borne equitably by each generation of taxpayers, rate-payers, users, and other beneficiaries over a relevant period of time;
4. Employ the use of debt to complement, and not to supplant, significant recurring commitments of annual appropriations for capital purposes;
5. Act as responsible fiduciaries during their tenure as City officials, to ensure the transfer to their successors of City infrastructure, physical plant, and service delivery capacity in equal or better condition as they received them from the preceding officials; and
6. Maintain the City's sound financial position, reasonable reserves, and strategic and reasonable debt position, thereby enhancing the City's corporate image, creditworthiness, flexibility, and its related ability to meet the challenges of each new day, decade and generation.

NOW, THEREFORE, BE IT RESOLVED by the City of Topeka, Kansas, that City Council hereby adopts the following policy to establish debt issuance and management guidelines for all debt financing for the City of Topeka.

SECTION 1. RESPONSIBILTY FOR DEBT MANAGEMENT

A. The primary responsibility for debt financing recommendations rests with the Director (the "Director") of the Administrative and Financial Services Department (the

"Department"). In developing such recommendations, the Director shall be assisted by City staff, including other members of the Department. The responsibilities of City staff shall include:

a. Ensuring adherence to this Debt Management Policy (the "Policy");

b. Considering the need for debt financing in the context of the existing Capital Improvement Budget and any other programs or planned improvements deemed necessary by the City Manager;

c. Reviewing changes in federal and state legislation that affect the City's ability to issue, service or administer its debt financings and report such findings to the City Manager as appropriate;

d. Reviewing annually the provisions of ordinances authorizing the issuance of general obligation debt of the City;

e. Reviewing opportunities for refinancing existing debt for reasons economical or otherwise deemed advantageous to the City; and

f. Recommending services by a financial advisor, bond counsel and other debt financing service providers as appropriate.

B. In developing financing recommendations, City staff shall consider:

a. Options for interim financing including short-term and inter-fund borrowing, taking into consideration federal and state reimbursements;

b. The effects of financing plans on existing and potential tax rates and user fees;

c. Interest rates, financing costs, available financing alternatives and other capital market and financing trends; and

d. Other factors deemed appropriate.

SECTION 2. POLICIES

A. The City shall annually forecast debt-funding requirements on a five (5) year basis to facilitate enhanced short-term decision-making, and to examine the long-term implications of existing and contemplated debt financings.

B. All other things being equal, the City shall prefer debt financing supported by user fees or special charges to debt financing supported by taxes.

C. The City shall not fund the costs of current operations or routine maintenance with long-term debt financing.

D. The City shall use debt financing primarily to finance capital projects with a relatively long life, typically no less than ten (10) years, excepting unusual or infrequently purchased equipment, which shall have a useful life of no less than five (5) years, and cost no less than one hundred twenty-five thousand dollars ($125,000).

E. The City shall maintain consideration for its statutorily limited debt capacity and restrict its use of debt financing to situations in which it is deemed more affordable, prudent or otherwise more advantageous than the use of “pay-as-you-go” financing for achieving the City’s objectives or adhering to its policies.

F. The City shall restrict the use of long-term debt financing and capital leases to fund capital acquisitions, improvements, projects or equipment to the following circumstances:

   a. The project is included in the City’s Capital Improvement Budget;

   b. The project is the result of growth-related activities within the community that require unanticipated and unplanned infrastructure or capital improvements by the City;

   c. The project’s useful life, or the projected service life of the equipment, is expected to be no less than the term of the financing;

   d. Existing or projected revenues are sufficient to service the planned debt;

   e. The cost of the asset or assets financed would place an undue burden on today’s current tax- or rate-payers if financed on a pay-as-you-go basis; or

   f. The use of debt is necessary to promote the stability over time of the City’s property tax demands or user fee levels.

G. The City shall adhere to the following financing guidelines:

   a. When measuring its commitment to its infrastructure and related service delivery potential, the City shall appropriately address its capital, operating and maintenance needs.

   b. Capital acquisitions, improvements, equipment, and projects are categorized into either “pay-as-you-go” or “debt financing” classifications. The City shall evaluate each project to determine the most affordable and/or advantageous method of financing with consideration for the following principles. In general, pay-as-you-go capital projects shall be characterized by a cost of no more than one hundred twenty-five thousand dollars ($125,000), an asset life of no more than five (5) years, or an improvement that is expected to extend the useful life of an existing capital asset by no more than five (5) years. Debt financing capital projects shall generally be restricted to major, non-recurring capital expenditures for assets or asset improvements costing in excess of one hundred twenty-five thousand dollars ($125,000) and having an expected useful life in excess of five (5) years.

c. When measuring inter-period equity for capital needs, the City shall appropriately balance considerations for allocating its debt burden among those constituents positioned to benefit from the financed assets, and the need to distribute the financing burden over appropriate fiscal periods.

d. Unless other methods are deemed more appropriate and/or advantageous, the City shall amortize individual long-term financings to simultaneously produce substantially level annual debt service while, on an aggregate outstanding debt service basis producing substantially downward-sloping debt service demands.

e. The City shall maintain a minimum ratio of Combined Utility Fund revenues to maximum annual combined utility debt service requirements of one hundred twenty-five percent (125%), with a target of ensuring that annual coverage exceeds two hundred percent (200%) in each year.

f. The City shall make efforts to maintain the average maturity of its general obligation bonds at or below fifteen (15) years.

g. The City shall make efforts to maintain the average maturity of its revenue bonds at or below thirty (30) years.

h. The City shall amortize debt financing for capital projects over a term not to exceed the average useful life of the financed assets.

i. The City shall review at least annually its outstanding debt for economic refunding opportunities. The City shall evaluate refunding opportunities on a net present value savings basis, considering for execution those refunding opportunities that stand to produce present value savings as a ratio of refunded principal of no less than three percent (3%), five percent (5%) and seven percent (7%) for current, advance and synthetic refundings, respectively. Refunding or restructuring opportunities that do not meet these minimum savings thresholds, but are otherwise determined to produce substantive economic, strategic, budgetary or other material benefits to the City may be considered. Unless an alternative structure is deemed to serve a particularly prudent, economical or strategic purpose, refunding savings shall be structured substantially evenly over the life of the refunded bonds, or in a manner to reduce the terms of the bond repayment cycle.

j. The City may consider the use of debt financing alternatives or programs, such as State Revolving Fund loans, when such alternatives are deemed advantageous and/or appropriate.

k. The City shall maintain compliance with all rules and regulations of the Securities and Exchange Commission (the “SEC”) and the Municipal Securities Rulemaking Board (the “MSRB”), including those concerning ongoing continuing disclosure standards and practices. The City maintains a written post-issuance compliance policy related to its tax-advantaged financings.

SECTION 3. DEBT ADMINISTRATION AND FINANCING

A. The Department shall be responsible for preparing the preliminary and final official statements as required for the City’s debt offerings, and for ensuring ongoing compliance with secondary market disclosure requirements. In the case of general obligation bonds, the Department is also responsible for ensuring an estimate of the mill levy required to service any proposed debt financing is provided to City Council.

B. The City Clerk shall be responsible for collecting and maintaining all supporting documentation, such as City Council meeting minutes and relevant resolutions and ordinances, as well as for receiving and maintaining sufficient copies of the preliminary and final official statements, and the full transcript of publicly issued debt, in accordance with federal and state regulations.

C. The City shall invest bond proceeds pursuant to its investment policy and with adherence to all applicable state and federal regulations.

D. The City shall engage external, independent bond counsel for all debt issuances. The Director, or other City staff delegated at the Director’s discretion, is responsible for establishing and administering an equitable selection process for engaging bond counsel. All debt issuances shall include a written opinion by bond counsel affirming that the City is authorized to issue such debt, stating that the City has met all federal and state constitutional and statutory requirements necessary for its issuance, and opining on the debt’s federal and state income tax status.

E. The City shall engage an external, independent financial advisor for all debt issuances. The City’s financial advisor shall be registered as a “municipal advisor” under applicable Federal law. The Director, or other City staff delegated at the Director’s discretion, is responsible for establishing and administering an equitable selection process for engaging a financial provider. For debt issuance, the financial advisor shall provide the City with advice and guidance on the preparation, structure, timing, and pricing of the issuance. The financial advisor shall be prepared to provide post-pricing analysis or ongoing research, data and analytics as requested by the City.

F. The City may use short-term financing, such as Temporary Notes, to meet temporary financing requirements for projects until the final cost of the project is known or can be accurately projected. In some cases, projects may be funded with internal funds that will be reimbursed from proceeds of long-term debt issued at a future date.

G. Credit Enhancement may be used if the cost of acquiring such Credit Enhancement is determined to reduce the City's borrowing costs and/or facilitate other advantageous borrowing terms or improved marketability for the debt financing.

H. The City shall seek to issue its Temporary Notes, General Obligation Bonds and Revenue Bonds through a competitive sales process. In instances in which the City deems the result of an attempted competitive sale as unsatisfactory, it may, at the election of the City Council, enter into negotiation with an underwriter for the sale of the bonds where permitted by Kansas law. For circumstances in which the Director deems a prospective debt issuance as unusually complex, extraordinary, or otherwise unsuitable for a competitive sale process, the Director may recommend pursuing a negotiated sale process within the constraints of all applicable laws and regulations.

SECTION 4. CONDUIT FINANCING

A. The City may sponsor conduit financings in the form of Industrial Revenue Bonds and similar instruments for activities (i.e., economic development, housing, health facilities, etc.) that are expected to serve a purpose of the general public, and are consistent with the City's overall service and policy objectives as determined by the City Council.

B. The City shall take appropriate measures to ensure that it is insulated wholly from credit risk and repayment exposure with regard to any conduit financings. All conduit financings must be reviewed and approved by a City staff review committee before being submitted to the City Council for consideration. City staff shall also approve of the selection of the underwriter and bond counsel for such conduit debt, ensure compliance with secondary market disclosure and federal arbitrage requirements, and establish minimum acceptable credit ratings for such conduit debt. The applicant will reimburse the City for its own financial advisor and/or issuer's counsel to provide advisory services on the transaction.

C. The City may charge an application fee related to conduit issuance to cover its costs of administration of the financing, both at execution and over the life of the bonds. The Department shall produce a schedule in writing of such fees and shall provide such schedule to any conduit borrower at the time it applies for such financing.

SECTION 5. ARBITRAGE LIABILITY MANAGEMENT

A. Federal arbitrage legislation is intended to discourage entities from issuing tax-exempt obligations unnecessarily. In compliance with the spirit of this legislation, the City shall not issue debt financing except for the purpose of financing clearly identifiable projects with reasonable prospects for timely initiation and completion. The City shall strategically issue temporary financing and subsequent long-term tax-exempt debt in a manner that ensures the timely and appropriate expenditure of bond and note proceeds.

B. Because of the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the City may engage external consultants to provide arbitrage calculation and compliance services. Such consultants shall be chosen at the discretion of the Director.

SECTION 6. CREDIT RATINGS

A. The Director is responsible for maintaining relationships with the rating agencies that assign credit ratings to the City's bond and notes. This effort includes providing periodic updates on the City's general financial condition, along with coordinating meetings and presentations in conjunction with each new debt issuance, as appropriate.

B. The City shall maintain a credit rating on its bonds and notes from at least one rating agency designated by the SEC as a Nationally Recognized Statistical Rating Organization (NRSRO). The Director shall hold responsibility for determining which rating agency or rating agencies the City shall engage to rate its bonds and notes.

C. The City shall make efforts to achieve, maintain, and as deemed feasible and appropriate, improve its bond and note credit ratings to no less than the following standards in an effort to achieve favorable interest rates and borrowing terms and preserve access to capital markets:

   a. General Obligation Bonds rated not less than the third highest rating (including modifiers) by at least one NRSRO.

   b. Revenue Bonds rated in not less than the fourth highest rating (including modifiers) by at least one NRSRO.

   c. General Obligation Temporary Notes rated in the highest category available from at least one NRSRO.

D. The City shall work to maintain a debt profile characterized by the following criteria, which has been established with consideration for criteria published by rating agencies that is characteristic of the credit rating quality the City wishes to preserve.

   a. Direct Debt as a ratio of estimated actual (market) value of taxable property within the City's corporate limits shall not exceed three percent (3%).

   b. Direct Debt as a ratio of total governmental funds' revenue shall not exceed one hundred twenty percent (120%).

   c. Direct Debt Service Expenditures as a ratio of total governmental fund expenditures shall not exceed fifteen percent (15%).

   d. Not less than 65% of the City's general obligation bonds shall amortize within the ten years next succeeding the current year.

e. For any given year, net revenues available for debt service shall be not less than two hundred percent (200%) of debt service associated with Senior Lien Combined Utility Revenue Bonds.

f. For any given year, net revenues available for debt service shall be not less than one hundred ten percent (110%) of combined debt service associated with Senior Lien Combined Utility Revenue Bonds, Subordinate Lien Combined Utility Revenue Bonds and State Revolving Fund loans.

g. Days of cash on hand, as defined by the NRSROs then-rating the City, shall not be less than 185 for the Combined Utility

SECTION 7. DEFINITIONS OF TERMS

A. “Arbitrage” is defined here as the difference between the interest paid on tax-exempt municipal bonds and the interest earned by investing the bond proceeds in higher-yielding securities. Federal income tax law typically restricts arbitrage yield earned on the investment of tax-exempt bond proceeds.

B. “Arbitrage Rebate” is defined here as the amount of arbitrage earnings in excess of arbitrage yield restrictions on tax-exempt bond proceeds that must be remitted to the federal government.

C. “Credit Enhancement" is defined here as the utilization of the credit of an entity other than the issuer or obligor to provide supplementary security for debt financing. Credit enhancement often takes the form of bond insurance, which is a guarantee by a bond insurance provider to make timely principal and interest payments in the event the obligor fails to do so. The benefit of credit enhancement is increased security for bondholders, which may translate into a more receptive capital market and/or higher credit ratings and lower borrowing costs.

D. “General Obligation Bonds” is defined here as bonds backed by the full faith and credit of the City. The taxing power securing general obligation bonds includes an unlimited ad valorem tax levied on real property in an amount sufficient to service general obligation principal and interest payments. A special tax rate is levied annually to service general obligation debt service. General Obligation Bonds are typically considered very strong credits, often characterized by high marketability and lower relative borrowing costs compared to Revenue Bonds.

E. “Direct Debt” is defined here as the City’s outstanding gross debt burden including all general obligation and tax-supported bonds, notes, loans and capital leases and any other debt secured by a general obligation of the City (as further defined by the NRSROs used by the City).

F. “Direct Debt Service Expenditures” is defined here as debt service expenditures associated with Direct Debt in any given year.

G. "Revenue Bonds" is defined here as bonds secured by revenues generated from the operation of a City utility, facility, service or other program. Such revenues may arise from dedicated user fees or service charges. The planning for, and issuance of, Revenue Bonds can be more complicated than that of General Obligation Bonds due to the often nuanced nature of the former's security structures, and the complexities involved in forecasting and implementing changes in revenues to service debt financing through user fees and service charges.

H. "Special Assessment Bonds" is defined here as bonds issued to develop facilities and basic infrastructure for the benefit of privately owned properties within a particular assessment district. Assessments are levied on properties benefited by the project and used to service the debt. The issuer's recourse for the non-payment of assessments is property foreclosure, at which point the balance of the special assessment debt becomes a direct obligation of the City.

I. "Temporary Notes" is defined here as a short-term obligation issued to provide immediate financing that is expected to be paid or refinanced by the issuance of additional Temporary Notes or long-term financing at a future date. Temporary Notes typically mature in one year or less, and are limited to a maximum maturity of four (4) years under state law.

PASSED AND APPROVED by the Governing Body on October 4, 2016.

CITY OF TOPEKA, KANSAS

ATTEST:

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Larry Wolgast, Mayor

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Brenda Younger, City Clerk