Powell
OHIO

RESOLUTION 2024-23

A RESOLUTION TO AMEND THE CITY OF POWELL DEBT MANAGEMENT POLICY AND REPEAL RESOLUTION 2015-06.

WHEREAS, Council finds that there is a need to amend the City of Powell Debt Management Policy which was adopted by Resolution 2015-06, and

WHEREAS, the Finance Committee has reviewed such amendments to the policy and recommends their approval to the City Council; and

WHEREAS, the Council has the authority to initiate such changes.

NOW THEREFORE BE IT RESOLVED BY THE CITY OF POWELL, COUNTY OF DELAWARE, STATE OF OHIO, AS FOLLOWS:

Section 1: That Council hereby repeals Resolution 2015-06 adopted on April 7, 2015 and adopts the amended City of Powell Debt Management Policy attached hereto as Exhibit "A" and incorporated herein by reference.

Section 2: That it is hereby found and determined that all formal actions of this Council concerning and relating to passage of this Resolution were adopted in an open meeting of the Council and that all deliberations of this Council and any of the decision making bodies of the City of Powell which resulted in such formal actions were in meetings so open to the public in compliance with all legal requirements of the City of Powell, Delaware County, Ohio.

Section 3: This Resolution shall be in full force and effect immediately upon adoption.

6/4/24	Elaine McCloskey 6/4/24
Tom Counts Date	Elaine McCloskey Date
Mayor	City Clerk

EFFECTIVE DATE: **June 4, 2024**

This legislation has been posted in accordance with the City Charter on this date 6/5/24.
EMcCloskey City Clerk

I. Introduction and Statement of Intent

The purpose of this debt management policy is to establish parameters and provide guidance governing the issuance, management, evaluation, and reporting on all debt obligations of the City of Powell. Implementation of this policy will enhance the quality of decisions, provide a framework for the decision-making process, and demonstrate the City's commitment to long-term fiscal sustainability and sound financial planning. Adherence to a debt policy helps to ensure that a government maintains a sound debt position and that its long-term credit quality is protected. The debt management policy is a companion document to the City's Capital Improvement Plan and Post Issuance Compliance Policy.

The Debt Policy is not intended to unduly restrict the debt program of the City. It is intended to guide it and provide both the Council and Administration a framework for making debt related decisions. From time to time, debt proposals with characteristics that deviate from the parameters described below may be advantageous to the City. If a particular issuance is proposed that does not meet this policy's guidelines, it should be presented to the finance committee by the Finance Director and discussed prior to introduction to Council for approval.

II. Policy Goals and Objectives

The goals of the Debt Management Policy are to establish parameters for issuing debt and managing a debt portfolio which encompasses the City's capital improvement needs and its ability to repay financial obligations using a long-term financial planning approach. Specifically, the policies outlined in this document are intended to guide the City in:

- Evaluating the City's debt issuance options.
- Promoting sound financial management in the short- and long-term.
- Maintaining appropriate capital assets for present and future needs.
- Protecting and enhancing the City's outstanding general obligation credit ratings.
- Ensuring the legal and prudent use of City's bonding authority.
- Using debt financing where appropriate to balance projected revenue streams with debt repayment and other capital needs of the City.

III. Guiding Principles

The following policies and principles are intended to govern the issuance of all City debt:

- Debt financing should be considered for capital improvement programs as approved in the annual budget, after other non-debt sources of funds (e.g. cash, grants, loans, etc.) have been considered.
- Cash financing from available sources: The City expects to pay for a portion of its capital budget on a cash basis. The City will cash fund capital expenditures that are expected to recur on an annual basis or when reserves are available that are not expected to be needed for other purposes in the foreseeable future.
- The City should actively seek sources of financing (either grants or low-interest state-sponsored loans) as an alternative to entering the capital markets.
- 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.

- Strive to obtain the lowest cost of capital.
- Fairly allocate costs between current and future beneficiaries.
- Structure debt to retire the principal over the useful life of the asset, or achieve a faster payoff if possible.
- Limit the purpose for the issuance of debt to only capital improvements (The City will not borrow to finance operating cash flow deficits).
- This policy should be reviewed annually for changing circumstances or revisions.

IV. Cash Funding

The City may consider funding capital improvements with cash, on a "pay as you go" basis, to the extent possible and prudent. City budget and policy dictates the amount allocated to capital improvements. The money allocated to capital improvements is used first for annual debt payments and the amount remaining after paying debt service is available for cash funded projects. Circumstances for funding projects on a cash basis include the following:

- To finance planning costs of capital improvements.
- To purchase capital improvements whose costs are under [$1,000,000].
- To purchase capital improvements when market conditions are unstable or present difficulties in achieving acceptable interest rates.
- To purchase capital improvements with useful lives shorter than five years.
- To fund recurring needs such as maintenance or minor repairs.

V. Limitation on Indebtedness

The City of Powell charter states that "The Municipality shall not incur debt in excess of the limitations imposed by the Constitution and the general laws of the State of Ohio."

A. **Policy limitations:** The Finance Director shall use their best effort to preserve the City's direct un-voted general obligation capacity of at least [10%] to address any future, unforeseen or extraordinary events which may require an immediate infusion of capital into the City's infrastructure, facilities or equipment. Such minimum capacities will be reviewed by the Finance Director from time to time and are subject to change as needed and recommended by the Finance Director. A pledge of the City's income tax may be utilized to exempt un-voted general obligation bonds from the City's direct debt limit in order to meet the goals of this policy.

B. **Direct Debt Limits:** The City's Direct Debt Limits are outlined in the attached Addendum.

C. **Indirect Debt Limits:** The City Indirect Debt Limits are outlined in the attached Addendum.

VI. Source of Repayment

The Finance Director shall identify and make recommendations to the City Manager and City Council regarding the specific revenue source(s) to be used to repay the proposed debt obligations, along with expected impacts on the operating budget prior to the issuance of the debt. Such revenue should be adequate to cover debt service charges for the full term of the repayment period. When no such specific revenue stream exists, City Council will designate a portion of income tax revenues to repay debt service. Prior to designating income tax for debt repayment, the amount of income tax pledged to pay both proposed and existing debt service must not exceed the amounts as described in Section VII below.

VII. Capital Improvements Supported by Income Tax

The City expects to reserve between [20%] and [25%] of annual income tax revenue to pay for capital improvements and to pay debt service on infrastructure projects. City Council will determine the percentage to be set-aside to support its capital program on an annual basis. The City will limit the amount of income tax committed to pay debt service on bonds and notes of the City to no more than [40%] of income tax collections set aside for non-self-supporting capital improvements. The balance of the set- aside [60%] will be used to pay for projects on a cash basis.

VIII. Debt Issuance

A. **Short-Term and Variable Rate Debt Guidelines:** The City shall consider the use of short-term notes (i.e. notes with final maturities of five years or less) as a source of permanent financing for projects with useful lives of less than ten years. The City should consider utilizing short-term debt issuances when:

   a. Planning costs such as architecture or engineering need to be completed before the total cost of the capital improvement can be determined.
   b. Timing of projects where smaller cost projects can be completed before a larger cost project(s) are ready to proceed.
   c. Cash flow of debt sources is not sufficient at current time but is expected to be sufficient in the near-term.
   d. Retain flexibility on amortization of debt.

   Additionally, notes may be used as a temporary funding source prior to and in anticipation of a bond sale. The City may consider notes when there is an immediate need for financing less than [$5 million]. Short-term notes can be used as long-term financing tools designed to manage interest costs. If short-term notes are being utilized for long-term financing, the City shall schedule annual principal payments similar to a fixed rate bond issue. Additionally, to minimize overall interest rate risk, the amount of variable rate financing shall not exceed [25%] of the City's outstanding bonded debt.

B. **Long-Term Debt Guidelines:** Long-term bonds are recommended for projects having useful lives of ten years or longer and for amounts of [$5 million] or greater.

C. **Types of Debt and Structural Features:**

   a. **Use of General Obligation Debt:** The City intends to use general obligation debt for non-enterprise capital improvements which it considers to be part of its core mission.
   b. **Use of Revenue Bonds:** The City may issue revenue bonds for projects that have a definable user or revenue base. Revenue bonds are secured only by a specific source of funds, either from the operations of the project being financed or from a dedicated revenue stream, rather than the general taxing power of the City. If there is capacity, it may be in the best interest of the City to issue double-barreled bonds

which are secured both by a dedicated revenue stream as well as by the City' s general taxing powers (general obligation bonds). The City should consider utilizing revenue bonds when:

i. The capital improvement is directly related to one particular revenue source.
ii. To preserve the City's general obligation capability for other purposes.

c. **Term/Duration:** For capital improvements financed by general obligation, Ohio Revised Code provides guidelines on the maximum period of time for which capital improvements may be financed. However, the duration permitted by law may often exceed the City' s expectations of the practical economic life of an asset. The City intends to have debt fully retired during the expected useful life of the asset being financed. However, generally the City does not expect to issue debt with a final maturity more than [20] years from the date of issuance.

d. **Debt Service Structure:** The City will seek to structure debt with relatively level debt service (principal and interest) over the life of the bond. There shall be no "balloon" bond repayment schedules, which consist of low annual payments and one large payment of the balance due at the end of the term.

D. **Economic Development:** From time to time, the City is asked to support economic development projects through the creation of tax increment financing (TIF) districts. The City will be guided by the following policies in determining the level of support that it will provide to TIF projects.

a. **General Obligation Support:** The City will consider placing its general obligation support behind an issuance of TIF supported bonds if the proceeds are being used to construct capital improvements already part of the City's long term capital plan. Generally, the City will not lend general obligation support for developer driven projects where the improvements would not be consistent with the City's long-term economic development objectives.

b. **Development Risk:** The City will use its best efforts to avoid assuming "development risk" – the risk that a project will be completed on a timely basis and generate the assessed valuation projected by the developer. The City will seek meaningful guarantees from the developer to insulate the City against development risk. Tools available to reduce the City's exposure to development risk include personal or corporate guarantees from the developer, letters of credit provided by the developer, guaranteed minimum TIF payments, and the issuance of TIF revenue bonds directly to the developer.

E. **Refundings:** The City may consider refunding for several reasons including achieving savings on debt service, restructuring outstanding debt, and changing burdensome bond covenants.

There are two types of refundings, as defined by federal tax laws; a current refunding in which a refunding takes place within 90 days of the optional call date; and an advance refunding in which refunding bonds are sold more than 90 days prior to the first call date.

Tax-exempt advance refundings were eliminated as part of the 2017 Tax Cut and Jobs Act. Previously, federal regulations permitted issuers to advance refund an issue of bonds on a tax-exempt basis only once during the life of the issue. Regulations do not restrict the number of times that debt can be refinanced on a current basis.

To provide guidance and to ensure that refundings are cost-effective, the City has established a threshold on the minimum present value savings that should be achieved in the four percent (4%) range net of issuance costs and any cash contributions. When the City is considering restructuring outstanding debt or changing burdensome bond covenant, the four percent savings target may be waived.

Other refinancing options (convertible, forward delivery, taxable, bond tenders, etc.) will be evaluated by the Finance Director on a case-by-case basis.

F. **Taxable Debt:** Federally taxable debt may be issued in lieu of tax-exempt debt due to market conditions, legal considerations, or any other reason determined by the City to be financially, legally, or structurally advantageous.

G. **Costs of Issuance:** Unless an alternative source of revenues is identified, the City will pay costs of issuance from the proceeds of the debt issue.

H. **Authorized methods of sale:**

a. **Public Sales:** There are two basic types of public debt sales: Competitive Sale and Negotiated Sale. In a competitive sale, the City (along with its financial advisors and bond counsel) prepares a bond or note sale and offers the securities for sale through a competitive bidding process. In a negotiated sale, the City selects an underwriter or team of underwriters to market and sell the bonds to investors. The underwriting firm negotiates the rates and other financial terms of the bonds directly with the City and its advisors in an arm's length transaction.

The City will maintain a bias toward the competitive sale format under the following conditions:

i. **On general obligation sales:** The City is a highly rated entity and has a high level of market acceptance for its general obligation bonds and notes. These attributes are conducive to accessing the market via competitive bid.
ii. **Stable market conditions:** During periods of low volatility, market timing is less critical than when conditions are rapidly changing. The advantages of a negotiated sale are reduced during periods of stable market conditions.
iii. **Traditional structure:** Debt structured with level annual debt service payments or level annual principal payments are easily accommodated through a competitive sale.

The City will maintain a bias toward the negotiated sale format under the following conditions:

i. **On revenue bond issues or project backed financing:** The City will consider issues supported only by a specific revenue stream or the revenues of a particular project from time to time. Market acceptance may be lower on these types of financings and investor education will be beneficial on such sales. This is more easily achieved through a negotiated sale.

ii. **Volatile market conditions:** The City may want to access the market quickly when market conditions are volatile in order to take advantage of brief " windows of opportunity'. Negotiated sales are advantageous when these conditions exist.

iii. **Non-traditional structures:** Whenever the debt must be structured in a tailored manner, the desired structure is best achieved through a negotiated sale. When zero coupons or variable rate securities are anticipated, the negotiated format is preferred.

b. **Private Sales:** The City will consider issuing debt purchased directly by a bank or private investor if it is determined economically advantageous to do or if it provides financing flexibility unavailable through other financing options. When considering private sales, the City will solicit proposals from several banks to ensure a competitive environment in an effort to secure a lower cost of capital.

I. **Investment of Proceeds:** The Finance Director will invest project proceeds subject to the City's Investment Policy, as adopted by City Council, in a timely manner. If a Trust Indenture is created, then the specific language of that indenture will be followed if it is more limiting than the City's Investment Policy.

J. **Credit Enhancements or Security Features:** The City may consider using credit enhancements or security features when the City's credit objectives suggest the use. The City will consider utilizing credit enhancements or security features on a case-by-case basis when the financial benefit can be proven since majority of the time the benefit is not likely due to the City's high bond ratings.

IX. Selection of Finance Professionals

The City has a purchasing policy which formalizes the selection process for professional services for such services as municipal advisor, bond counsel or underwriters. These and other professionals will be selected in a manner consistent with the City's purchasing policy for professional services. Fees for professional services will be negotiated on a transaction-by-transaction basis.

The Finance Director may retain the services of any qualified financial professional to assist the research and execution of a financing instrument on any basis that the Finance Director and City Manager deem appropriate and most beneficial to the City pursuant to the goals and objectives contained herein. The terms of any agreement with financial professionals, including bond counsel, shall be determined by the Finance Director with consultation of the City Manager, and based on their best efforts to retain the greatest possible representation and expertise for the City at a cost that is commensurate with the value of the successful financing initiative(s), subject to approval by City Council. The Finance Director and the City Manager, with consent from City Council, shall maintain the authority to change the City's financial consultants at any time.

X. Credit Objectives

Rating requests related to the issuance of securities shall be made by the Finance Director on a case-by-case basis. The City will seek credit agency ratings to secure the most favorable market interest rate when the expected costs of obtaining the ratings do not exceed the projected interest rate savings. Rating surveillance and rating requests shall be given full attention in an effort to maximize the rating outcome. When engaging with a rating agency on a formal basis, presentations should include but not be limited to full and complete economic, management and financial updates, a detailed review of financial and managerial policies and procedures, economic development updates and any other key factors considered in the then current rating criteria published by the rating agency. The City shall strive to maintain its current credit ratings of “AAA” from S&P Global and “Aa1” from Moody’s.

XI. Market Disclosure Practices

The City will report on an annual basis all financial information to the Municipal Securities Rulemaking Board through EMMA as required by all applicable continuing disclosure agreements and laws. This information will include the City’s audited and unaudited financial statements. The City maintains a Post Issuance Compliance Policy and acknowledges the City’s responsibilities with respect to the provision of annual continuing disclosure requirements and pledges to make all reasonable efforts to assist in complying with SEC (Securities and Exchange Commission) Rules and MSRB (Municipal Securities Rulemaking Board) Rules.

XII. Derivative Products

The City will not utilize derivative products which include but are not limited to interest rate swaps, inverse floaters and interest rate caps and collars.

Addendum
As of July 1, 2023 (DRAFT)

This Addendum to the Debt Policy outlines the City's current Direct and Indirect Debt Limits as of the date of this Addendum. This Addendum may be updated as needed, from time to time as determined by the Director of Finance.

Direct Debt Limits: The statutory General Obligation debt limits of the City are 10.5% of its Assessed Value for voted debt and 5.5% of its Assessed Value for unvoted debt. Certain issuances of General Obligation debt are exempt from the Direct Debt Limit Calculations such as self-supporting enterprise debt. Below is a table outlining the City's Direct Debt Limits, outstanding general obligation debt and balance of unvoted general obligation debt remaining:

Direct Debt Limit	
City's Assessed Value 2022	$702,370,660.00
Voted - Maximum Allowable (10.5%)	$73,748,919.30
Unvoted - Maximum Allowable (5.5%)	$38,630,386.30
Outstanding Voted GO Debt	$0.00
Outstanding Unvoted GO Debt	$5,375,000.00
Unvoted GO Debt Exempt from Limit	$6,375,000.00
Unvoted GO Debt Subject to Limit	$5,375,000.00
Balance of Unvoted GO Debt Limit	$33,255,386.30
[10%] of Unvoted Debt Limit	$3,863,038.63

As stated in the Debt Policy, the Finance Director shall use his or her best effort to preserve the City's direct un-voted general obligation capacity of at least [ten] percent. [Ten] percent of the City's current direct un-voted debt limit is $3,863,038.63.

Indirect Debt Limit: The indirect debt limit, often referred to as the "ten-mill limitation" is the maximum aggregate millage for all purposes that may be levied on any single piece of property by all overlapping taxing subdivisions within the County without a vote of the electors. Below is a table outlining the current 10 mill requirements for the City and its overlapping subdivisions:

Overlapping Subdivisions	Tax Valuation	Debt Outstanding	Estimated Debt Service	Required Mills
Delaware County	$9,947,035,610	$35,235,563	$3,227,948	0.32451
City of Powell	$702,370,660	$11,750,000	$2,448,050	3.48541
Concord Township	$697,016,520	$0	$0	0.00000
Olentangy Local School District	$5,067,399,940	$3,242,294	$853,375	0.16840
Total Required Mills				3.97833
Balance of Limitation				6.02167

As of January 1, 2023, approximately 6.02167 mills remain within the ten-mill limitation which has yet to be allocated to debt charges and which is available to the City and overlapping subdivisions in connection with the issuance of additional un-voted general obligation debt. In no case will the City issue general obligation debt for capital improvements that could be financed through the issuance of revenue bonds if such issuance would reduce the available millage under the constitutional ten mill limit to below [2] mills.