

CITY OF NEW BEDFORD, MASSACHUSETTS

Policy Title: Debt Issuance and Management

Effective Date: November 27, 2013

1. Introduction

The purpose of this debt policy is to establish a set of parameters by which debt obligations will be undertaken by the City of New Bedford. This policy reinforces the commitment of the City and its officials to manage the City's financial affairs so as to minimize risks, avoid conflicts of interest and ensure transparency while still meeting the City's capital needs. A debt management policy signals to the public and the rating agencies that the City of New Bedford approaches the financing of capital needs in a deliberate manner and fulfills the requirements of Chapter 44 of the Commonwealth of Massachusetts General Laws regarding the adoption of a debt management policy.

The City shall comply with legal requirements for notice and for public meetings related to debt issuance. All notices shall be posted in the customary and required posting locations including, as required, local newspapers, bulletin boards, and websites. All costs associated with each debt issue as well as, when applicable, a debt service schedule outlining the rate of retirement, shall be clearly presented and disclosed to the citizens, City Council, and other stakeholders in a timely manner.

2. Financing Purposes

The City of New Bedford will consider term financing for the acquisition, replacement, and/or expansion of physical assets, and to refinance existing debt. Short-term issues may be used to finance certain projects and equipment and to support operational borrowing. However, the City will minimize the use of short-term cash flow borrowings by maintaining adequate working capital and effective management of the budgeted expenditures.

While the "pay as you go" means of using current revenues to pay for capital projects is often considered the preferred means of financing because it avoids interest payments, it may not be entirely practical, given the size and timing of projects to meet the City's ongoing needs. However, the inclusion of a robust cash component in capital projects will be pursued whenever possible, provided fund balance and reserve policies are not compromised.

All debt will be issued and managed in accordance with Chapter 44 of the Massachusetts General Laws.

The primary borrowing purposes are summarized below:

a. Long-Term Capital Improvements

The City will prepare a multi-year Capital Improvements Program (CIP) working with individual departments and agencies and prioritize these projects based on a Capital Needs Assessment. The CIP will include projections for the upcoming fiscal years and will be updated at least biennially, or sooner if there are significant changes to the scope and/or cost of projects. Future operations and maintenance costs associated with capital improvement projects will be developed and identified as part of the project submission.

Since the aggregate cost of desired capital projects generally exceeds available funds, the capital planning process prioritizes projects and identifies the funding needs. The City will initially rely on internally-generated funds and/or grants and contributions from other governmental agencies to finance its capital needs. Debt will be issued for a capital project only when it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries and if a secure revenue source is identified to repay the debt. Debt service is limited to that portion of a project that is not reimbursable by state, federal or local grants.

The Financial Team, working with City departments within the context of the CIP and the City's Five-Year Financial Outlook, oversees and coordinates the timing, processing, and marketing of the City's borrowing and capital funding activities. Close coordination of capital planning and debt planning will ensure that the maximum benefit is achieved with the limited capital funds. The debt management process will determine the availability of funds which can be raised through debt based upon the debt capacity/affordability analysis.

The City will endeavor to enter the financial markets no more than twice each year, and will analyze market conditions prior to debt issuance to determine the most advantageous terms. Debt financing schedules will be constructed to repay debt within a period not to exceed the expected useful life of the asset, and will attempt to repay debt using a level principal repayment structure.

b. Refinancings/Refunding of Existing Debt

The Chief Financial Officer, working with the Financial Team, will periodically evaluate the City's existing debt and execute refinancings when economically beneficial, legally permissible and prudent. A refinancing may include the issuance of bonds to refund existing debt or the issuance of bonds in order to refund other obligations. Net present value savings over the course of the refunding must be at least 3% (of refunded principal) for consideration.

c. Cash Flow Borrowing

It is understood that expenditure cycles do not always follow the revenue cycle and that short-term debt may be necessary to meet cash flow requirements.

Anticipation notes may include:

- Tax Anticipation Notes (TANs), used in anticipation of future tax collections.
- Revenue Anticipation Notes (RANs) issued with the anticipation that non-tax revenue will be received.
- Tax and Revenue Anticipation Notes (TRANs), which will be paid with a combination of taxes and revenue.

d. Short-Term Borrowing for Capital Needs

The City may from time to time issue short-term debt that serves as interim financing pending the issuance of long-term debt to finance a completed capital project. This approach is particularly applicable in cases where a project depends upon a combination of reimbursable grant funding. Such notes may include:

- Bond Anticipation Notes (BANs), a short term-interest-bearing note issued in advance of a future long-term bond issue.
- Grant Anticipation Notes (GANs), issued for capital projects that are dependent upon reimbursable grant funding from an outside entity, such as the Commonwealth or Federal governments.

e. Capital Leases

The City may enter into a capital lease agreement for the purchase of capital equipment and vehicles so long as the lease period does not exceed 10 years or extend beyond the useful life of the purchase.

f. State Revolving Fund

For projects that are directly related to wastewater and drinking water infrastructure/ construction/improvement or rehabilitation, the City may opt to borrow funding directly from the Massachusetts Water Pollution Abatement Trust revolving fund program.

3. Financing Processes

The City shall employ a financial advisor and bond counsel to review and advise on all matters related to debt authorization and debt issuance. Should a capital project, infrastructure improvement, or capital equipment need require seeking an authorization to borrow funds, the benefitting party must provide comprehensive documentation to the Financial Team outlining the scope of the project, the cost of the project, the cash flow projection to complete the project, and any expected federal, state or local grant awards or other funding sources.

- a. All loan authorizations should be authored by bond counsel or, at a minimum, reviewed by bond counsel prior to submission to the City Council for approval.
- b. Unless market conditions are extremely unfavorable, the City will endeavor to sell all municipal bond and note issues by competitive bid. The competitive bid process guarantees the City adequate exposure in the market and reasonable expectation that interest terms and rates are competitive.
- c. The City seeks to maintain the highest possible credit rating that can be achieved for debt instruments to attract quality investors and reduce interest costs. To enhance creditworthiness, the City is committed to prudent financial management and systematic capital and long-term financial planning.
- d. The City will maintain good communications with bond rating agencies about its financial condition. The City will adhere to a policy of full disclosure on every financial report and bond prospectus (official statement).
- e. Long-term debt service for enterprise fund (business-related) debt, i.e., Water, Wastewater and Airport operations, shall be included in the respective funds' annual budgets. The city will periodically review and adjust rates for each enterprise to ensure sufficient capacity for annual debt service payments.
- f. The City will file application with the Municipal Finance Oversight Board for consideration of acceptance into the State Qualified Bond Act (SQBA) program when appropriate.
- g. Debt maturity is dictated by the limits set forth in MGL Chapter 44 as prescribed by Statutory Authority, Purpose and Maximum Term. The City shall endeavor to retire/refund debt whenever it is financially feasible, legally permissible and advantageous for the City.

- h. The City will monitor all municipal borrowings on a regular basis to insure compliance with federal tax reform legislation and arbitrage limitations.

4. Debt Capacity

The decision whether to assume new tax-supported general obligation debt (total general obligation debt less any enterprise-related, revenue supported general obligation debt) shall be based on the direct cost and benefit of the proposed project, the current conditions in the bond market and the City's ability to afford new debt. The City will apply several indicators to determine the appropriateness of assuming tax-supported general obligation debt. These affordability targets shall include:

- a. Outstanding debt as a percentage of per capita income;
- b. Outstanding debt as a percentage of assessed valuation.
- c. Annual debt service as a percentage of the adopted General Fund operating budget.
- d. Amortization of 60% to 70% of debt, including the prospective debt issuance, in 10 years.

In addition, enterprise fund indebtedness may not exceed 25% of the total assessed valuation of all real and personal property in the City for any given fiscal year, so long as the enterprise fund can support its debt service.

The City shall not assume more tax-supported general obligation debt than it retires each year without conducting an objective analysis regarding the City's ability to assume and support additional debt service payments.

General obligation, net tax-supported debt may not exceed 10% of the total assessed valuation of all real and personal property in the City for any given fiscal year and the City shall strive to maintain its General Fund backed debt service at no more than 10% of the General Fund's annual operating budget.