RESOLUTION NO. 1597

A RESOLUTION OF THE GOLDEN CITY COUNCIL ADOPTING A DEBT MANAGEMENT POLICY

WHEREAS, the City Council has previously adopted various policies related to the financial operations of the City; and

WHEREAS, the Government Finance Officers Association (GFOA) recommends the adoption of a formal debt management policy and, further, requires its inclusion in the budget document; and

WHEREAS, the Citizen's Budget Advisory Committee has reviewed the attached Debt Management Policy and recommends its adoption.

THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF GOLDEN, COLORADO:

That the attached Debt Management Policy is hereby approved.

Adopted the 22nd day of September, 2005.

Charles J. Baroch
Mayor

ATTEST:

Susan M. Brooks, MMC
City Clerk

APPROVED AS TO FORM:

James A. Windholz
City Attorney

I, Susan M. Brooks, City Clerk of the City of Golden, Colorado, do hereby certify that the foregoing is a true copy of a certain Resolution adopted by the City Council of the City of Golden, Colorado at a regular meeting thereof held on the 22nd day of September, A.D., 2005.

(SEAL)

ATTEST:

Susan M. Brooks, City Clerk of the City of Golden, Colorado

City of Golden
Debt Management Policy

Effective September 22, 2005

Purpose

This policy establishes appropriate uses of debt, establishes formal debt management practices to ensure that the City maintains a strong credit profile, and applies these practices as a functional tool for short-term and long-term debt management.

This policy establishes the following goals:

1. Debt should be considered the funding source of last resort.
2. Maintain or improve the City's overall financial condition by maintaining low debt levels as appropriate.
3. Attain and retain the highest possible credit rating for each debt issue.
4. Minimize debt interest costs.
5. Assess all, including new and innovative, financing alternatives, to also include debt avoidance through grant programs or private/public cooperation.
6. Should not exceed industry standards in total debt per capita ratios, including overlapping debt.
7. Use the most cost effective financing option for capital assets with substantial economic life.
8. Finance routine infrastructure replacement programs on a pay-as-you-go basis, not via debt issuance.
9. Debt issuances should be anticipated through the 10-year Capital Improvement Program (CIP) so that adequate time exists to examine alternatives and to comply with legal constraints and election provisions.
10. The use of enterprise debt is preferred over general obligation debt when appropriate and cost effective. The analysis of enterprise bond issues must include an estimate of the impact, if any, on rates, fees, and charges.
11. Maintain an adequate ratio between cash funding of capital improvements and debt within the CIP.
12. The impact on operating costs should be considered and accounted for prior to issuing debt for a capital need.
13. At least 50% of the principal amount should be retired in the first ten years of the issue unless the debt is structured to allow for level annual payments (including interest).
14. Debt should be issued only in the amount specified or budgeted for specifically identified projects.

Legal Provisions/Constraints on the Issuance of Debt

Authority to issue debt comes from the City's Home Rule Charter. Legal provisions/constraints exist for City debt issuance in the City's Charter, the Taxpayer Bill of Rights (TABOR) amendment to the Colorado Constitution, and other Colorado law and court decisions.

Per Section 12 of the Charter for the City of Golden, the City may borrow money and issue the following types of debt:

1. Short-term notes
2. General obligation bonds and other like securities
3. Revenue bonds and other like securities
4. Local improvement bonds and other like securities

Section 12 of the Charter discusses the types of debt in more detail as summarized below:

1. Short-term notes will mature before the end of the calendar year in which they are issued. Authorization to issue short-term notes in anticipation of tax revenue or other revenue occurs with an affirmative vote of the majority of City Council.

2. General obligation bonds shall be approved by a vote of the taxpaying electors.

3. Revenue bonds or other debt instruments may be issued by majority vote of City Council for constructing, improving, condemning, or otherwise acquiring or extending water, electric, gas, or sewer system, or other public utility or other income-producing project provided that the bonds or other obligations are payable from the net revenues derived from the operation of the system/project.

4. City Council may authorize without an election issuance of refunding bonds or like securities at a lower interest rate.

5. There are no established limitations as to the amount of bonds that may be issued by the City.

6. Special or local improvement district bond issuance may be initiated by order of City Council or on a petition by the owners of more than 50% of the area of the proposed district. (Note that this Charter provision is also subject to requirements of TABOR.)

Certain provisions of TABOR address the issuance of debt. A summary of those provisions is provided below:

1. All multiple-year debt shall first be approved by the City's taxpaying electorate unless it is issued for a TABOR defined government enterprise or refinances bonded debt at a lower interest rate or sufficient cash reserves are pledged irrevocably for all future payments. (Enterprises for the City of Golden include the Water Fund, Wastewater Fund, Drainage Utility Fund, and Fossil Trace Golf Course Fund.)

2. Bonded debt ballot measures shall specify the debt's principal amount and maximum annual and total repayment cost, the principal balance of total current bonded debt and its maximum annual and remaining total repayment cost.

3. Debt elections can only occur in a State general election, biennial local City election, or on the first Tuesday after the first Monday in November of odd-numbered years.

Colorado law and recent court decisions provide that operating leases, lease-purchases, and Certificates of Participation, that are subject to annual appropriation, are not considered multiple-year debt and are not subject to TABOR election requirements.

Debt Structure and Restrictions

Types of debt issued

The City may issue both short term and long term debt, including, but not limited to the following:

1. Short term: Tax, grant, fee, or bond anticipation notes; commercial paper; or variable rate demand notes may be issued when such instruments allow the City to meet its cash flow requirements or provide increased flexibility in its financing program. No maturity of any such issue shall extend beyond December 31 of the year in which it is issued.

2. Long-term: The City may issue general obligation bonds, certificates of participation, special assessment bonds, self-liquidating and double barreled bonds. The City may also enter into long-term leases for public facilities, property and equipment for a period not to exceed the useful life of the asset being financed.

Useful life of financed asset and maturity of debt issue

No bonds or certificates of participation shall be issued for an asset with a useful life of less than ten years. Leases may be entered into for assets with useful lives of three years or more. The duration of a debt issue shall not exceed the useful life of the financed asset. The financing schedule and repayment of debt shall be timed to take advantage of market conditions and, as practical, to maximize its credit capacity for future use.

Sale of securities

Debt issues may be sold either through a negotiated sale or a competitive bid process depending on which is likely to yield the best results for the City.

Credit enhancements

The City may enter into agreements with commercial banks, insurance companies, or other financial entities for the purpose of acquiring letters of credit, municipal bond insurance, or other credit enhancements that will provide the City with access to credit when its use is judged cost-effective or otherwise advantageous.

Call provisions

Bond calls should be as short as possible consistent with the goal of minimizing interest costs. Call premiums should reflect the true economic cost of calling the securities.

Financing replacement infrastructure

Long-term debt issuance shall not be used to finance ongoing replacement of infrastructure. Such financing shall be provided through adequate cash funding in the capital budget each year.

Leases

Operating leases for capital equipment are appropriate when circumstances dictate that owning the equipment is not in the best interests of the City or if cash flow projections indicate that buying outright causes City cash balances to go below acceptable levels.

Lease/Purchase agreements for capital assets which mature in less than ten years shall not be allowed unless the City's expected interest earnings rate on investments exceeds the lease effective interest rate for the duration of the lease or unless cash flow projections indicate that buying outright causes City cash balances to go below acceptable levels.

General operating costs

No general operating costs may be financed through long-term debt. General operation costs include, but are not limited to, those items normally funded in the City's annual operation budget and having a useful life of less than one year.

Enterprise debt affordability target

In general, revenue bonds or other debt instrument should not be issued for a City enterprise fund if the issuance causes fees for services to exceed 125% of the average Denver metro rate for the service provided unless reason for the debt is deemed necessary for the health, safety, or welfare of the citizens of Golden. Enterprise fund debt shall be paid exclusively through enterprise activity revenues.

Overlapping debt affordability target

Non-enterprise general obligation (G.O.) long-term debt should not be issued if, when combined with overlapping G.O. debt from other entities, it places an excessive burden on the citizenry. Overlapping non-enterprise G.O. debt exceeding $2,500 per capita or 8% of the assessor's market valuation should be used as a guideline when evaluating the issuance of new debt.

Amount of issue

The debt issue shall be sized appropriately for the project being financed. Consideration should be given to the exceptions to arbitrage calculation requirements, the market advantages of issuing bank qualified debt, and the possibility of issuing the debt in several series' for multi-year projects. In determining the minimum debt issuance, Council shall review related costs of issuance to see if debt is the most cost-effective financing mechanism.

Certificates of Participation (COP's)

COP's are documents that act like bonds but are structured more like leases. The security for the COP's are typically a pledge of assets being financed and the City's intent to make the necessary annual appropriations during the term of the lease agreement. No pledge of full faith and credit of the City is made. Consequently, the obligation of the City to make basic rental payments does not constitute an indebtedness of the City. City Council may authorize the issuance of COP's. A vote of the electorate is not required.

Debt Administration

The City shall prepare appropriate disclosures as required by the law or regulation of an agency with supervision over the disclosure. Additionally, the City shall meet the highest ethical and professional standards regarding disclosure.

The Director of Finance/Treasurer shall administer and coordinate the City's debt issuance program and activities, including time of issuance, method of sale, structuring the issue, and marketing strategies for the purpose of making recommendations to the City Manager and City Council. Outside professionals (including Bond Counsel, Financial Advisors, and Arbitrage Specialists) may be utilized to assist in this process.

The City shall maintain effective relations with the rating agencies and the investment community through the annual distribution of financial reports and other appropriate information upon request.

The City shall consider refunding outstanding debt when legally permissible and financially advantageous. A net present value debt service savings of at least five percent or greater should be achieved.

The City shall actively manage the proceeds of debt issued for public purposes in a manner that is consistent with its investment policy. The management of the debt proceeds shall enable the City to respond to changes in markets or changes in payment or construction schedules so as to (i) minimize risk, (ii) ensure liquidity, and (iii) optimize returns. Most crucially, the City shall ensure that the project financed by debt is completed in a timely manner.

The City shall maintain a system of accounting to calculate bond investment arbitrage earnings in accordance with the Tax Reform Act of 1986. Such amounts, if any, shall be calculated annually and transferred to a federal arbitrage rebate agency fund for eventual payment to the United States Treasury.

Debt service coverage ratios shall be maintained through ongoing cost of service studies to determine adequate user rate changes.