

City of Burlington, Vermont

Policy Title:	Debt Management Policy
Effective:	9/24/2018

INTRODUCTION

The purpose of this policy is to establish and express the philosophy, guidelines and expectations of the City of Burlington (the “City”) regarding and pertaining to best practices associated with the issuance and management of municipal debt. This policy provides guidance to the City Administration and staff regarding purposes for which debt may be issued, types and amounts of permissible debt, and methods of sale that may be used.

The debt policy is intended to articulate the City’s policy goals and to demonstrate the City’s commitment to long-term financial planning. The overall goal is to continue work toward improving the City’s management of its financial resources, and as a result improve its credit rating, to continue to lower the total cost of borrowing to taxpayers. The primary policy objectives are to establish conditions and target benchmark ratios for the use of debt, minimize the City’s net debt service and issuance costs, achieve the highest practical credit rating, and provide timely and accurate financial disclosure. Implementation of these objectives should help steward City resources effectively and protect City taxpayers from unnecessary costs.

This policy is meant to be used in conjunction with the City Charter, which outlines the City’s authority to issue bonds, Vermont Statutes, and Federal regulations related to the issuance of debt. Exceptions to this Policy may occur only by approval of the City Council.

LIMITATIONS ON DEBT

This policy sets limits for the amount of debt the City may undertake. Guidelines are provided for the combined “overlapping” debt load, as well as direct debt and revenue bonds. All requests for bonding by the City and the School District will require an analysis of capacity and projected debt load based on then-current conditions be performed. That analysis must be included with the bonding request.

General Obligation Debt

The City issues General Obligation debt (GO) to meet the financing needs of the City, Tax Increment Financing Districts (TIF), and Burlington School District (BSD). It should be noted that

some bonds issued on behalf of enterprise funds are issued as GO debt, but are considered as supporting Business –Type Activities in the Consolidated Annual Financial Report (CAFR) and credit analysis, and are therefore excluded from this debt limit.

)] **Overlapping Debt**

The City shall, as a matter of policy, conduct its finances so that the amount of non-self-supporting, general obligation debt and capital leases issued by the City and BSD outstanding at any time (overlapping debt) maintain the debt load at no more than a target of 4% of the equalized value of taxable assets in the City. As the City recognizes that there may be times where need and/or opportunity may exist that would justify exceeding the target limit, the policy allows for borrowing of up to 4.25% of taxable property, or such amounts as limited by applicable law¹. Any decision to exceed the target limit must be evaluated and approved by City Council resolution that includes findings articulating the reasons for exceeding the target, expectations for the length of time the total indebtedness will exceed the target, and plan for bringing total indebtedness back into policy.

Measure	Target	Maximum ¹
Debt as a percentage of full value of the tax base	4.00%	4.25%
Debt as portion of budgeted operating revenues, less transfers and including BSD revenues	3.0x	3.2x

The City’s evaluation of debt capacity and load will allow for the following adjustments:

-)] Full value of the tax base calculations for both direct and overlapping debt will be adjusted to allow for revenues generated through payment in lieu of taxes (PILOT) and fee for service arrangements collected from properties that do not pay full taxes. The methodology used for this calculation will be included as an appendix to this document;
-)] TIF debt, and other debt with a dedicated funding source (e.g. agreements for payment by local institutions) will be excluded from the overlapping and direct debt calculations; and
-)] Where a dedicated sinking fund exists to meet a future debt liability, that amount may be considered in the evaluation of outstanding debt.

▪ **City GO Bonds & Capital Leases**

In addition to the above limit on overlapping debt, the City will limit the amount of general obligation debt and capital leases outstanding at any time (direct debt) to 1.75% of adjusted taxable property and 1.5x the operating budget, or as limited by applicable law.

¹ <https://legislature.vermont.gov/statutes/section/24/053/01762>

As above, the City recognizes that there may be times where need and/or opportunity may exist that would justify exceeding the target limit. Therefore the City will aim for a maximum limit of 2.00% of taxable property. Any decision to exceed the target limit must be evaluated and approved by City Council resolution that includes findings articulating the reasons for exceeding the target, expectations for the length of time the total indebtedness will exceed the target, and plan for bringing total indebtedness back into policy.

Measure	Target	Maximum ¹
Debt as a percentage of full value of the tax base	1.75%	2.00%
Debt as portion of City’s budgeted operating revenues, less transfers	1.5x	1.5x

In addition, to the above ratios, when considering taking on new direct debt, the City will consider the following factors:

-) Debt service costs relative to general fund operating revenues and expenses; and
-) Projected cost of the new debt to the taxpayers.

The City’s debt calculation will exclude debt issued with a dedicated funding source (e.g. Institutional Capital Debt), TIF debt, short term debt, revenue bonds, debt issued for auditor-defined business-type activities (e.g. BED or storm water debt), and pre-refunded bonds.

- **Burlington School District**
 Burlington School District (BSD) debt is issued as a general obligation of the City (GO) and is considered “overlapping” debt. BSD debt is included by Rating Agencies in their evaluation of City credit-worthiness. As a result, the City will strive to work with the Burlington School District to maintain the overall debt load within the limits outlined above. The City will undertake steps so that bonds issued for School District purposes are paid for by funds received by BSD for education expense.
- **Refunding**
 Refunding may occur to obtain more favorable financing terms and cost savings. However, refunding activities may not result in an increase of the debt load.

TIF Debt

TIF debt is often issued as General Obligation debt, however it will be issued only where cash flow from projected TIF increment is expected to be adequate to pay all outstanding and new debt service costs. TIF debt issuance is subject to all restrictions outlined in State Statute.

Revenue Bonds

Revenue Bonds will only be issued if available or projected revenue sources are adequate to support operating expenses and the new debt service requirements. The issuing department must hold and maintain a debt coverage ratio of no less than 1.15, or as specified in bond covenants, and must demonstrate the ability to meet any additional bond covenants.

USE OF DEBT

The City shall use an objective, analytical approach to determine whether it can afford to assume new general purpose debt beyond what it retires each year. This process shall compare generally accepted standards of affordability to the current values for the City. These standards shall include, among other things, debt per capita, debt as a percent of taxable value, debt service payments as a percent of current expenditures, and the level of overlapping net debt. The process should also examine the direct costs and benefits of the proposed expenditures. The decision on whether or not to assume new debt should be based on these costs and benefits, the current conditions of the municipal bond market and the City's ability to "afford" new debt when compared to the aforementioned standards.

As a general rule, debt financing is not considered appropriate for any recurring purpose such as current operating and routine maintenance expenditures. Debt financing may be used, however, in anticipation of receipt of taxes, grants or other revenues.

Capital Planning Model (CPM): The City shall develop and maintain a CPM for use in conjunction with a multi-year Capital Improvement Plan (CIP) for consideration and adoption by the Board of Finance and City Council as part of the City's budget process. The CPM, which is comprised of the CIP and financing considerations, shall be at minimum for the upcoming five fiscal years and shall be updated annually. The CPM shall analyze the conformance of the planned financings with the debt target limitations listed below.

The City may fund certain capital projects with a pay-as-you-go General Fund appropriation as a means to preserve debt capacity for other projects. The following factors will be used to evaluate and classify pay-as-you-go versus long-term or short-term debt financing in funding capital improvements:

Factors which favor pay-as-you-go:

-) Shorter financing term.
-) Ability to meet timing of need.
-) Current revenues and adequate fund balances are available.
-) Project phasing is feasible.
-) Debt levels would adversely affect the City's credit rating.
-) Typically lower issuance costs.
-) Market conditions are unstable or present difficulties in marketing of long-term bonds.

Factors which favor long-term financing:

-) Revenues available for debt service are considered sufficient and reliable so that long-term financing can be marketed with an appropriate credit rating.
-) The project for which financing is being considered is for an essential governmental purpose.
-) Market conditions present favorable interest rates and demand for municipal financings.
-) A project is mandated by state or federal requirements.
-) The life of the project or asset financed is for five or more years.
-) The project will generate sufficient revenues to finance debt service over the life of the bonds.

TYPES OF DEBT

General Obligation (GO) Bonds are bonds issued to which the full faith and credit of the City is pledged. All taxable real property is subject to the levy of ad valorem taxes to pay GO bonds.

Tax or Grant Anticipation Notes (TAN/GAN); Revenue Anticipation Notes (RAN). Tax Anticipation Notes (TANs) are short-term notes, proceeds of which allow the City to cover the periods of cash shortfalls resulting from a mismatch between timing of revenues and timing of expenditures. Where its use is judged to be prudent and in the City's overall financial interest, the City may choose to issue a TAN or GAN to fund internal working capital cash flow needs. Before issuing such a note, the City will prepare appropriate cash flow projections. A TAN or GAN may be sold in either a competitive or negotiated sale, subject to authorization and approval by the City Council as appropriate. Tax Anticipation Notes shall not exceed amounts set by the City Charter. The TAN should be repaid within the same fiscal year the borrowing occurs.

Grant Anticipation Notes (GANs) are short term notes issued in anticipation of the receipt of grants, usually from the federal government. The GANs are payable from the grants when received. GANs may be issued, subject to City Council authorization, and shall not exceed the amount of grants anticipated to be received. The GAN shall mature within one year of issuance,

but, with City Council approval, may be renewed or refunded prior to the date such expected grant is received.

Revenue Anticipation Notes (RANS) are notes issued in anticipation of the receipt of revenues from one of the enterprise funds of the City. Revenue anticipation notes may be issued, subject to City Council authorization, as permitted by applicable law, including the City Charter. RANS may be issued to provide short-term liquidity for the Airport Department, the Electric Department, the Traffic Division, the Water Division, and the Wastewater Division in anticipation of the receipt of revenues from such applicable department. Pursuant to City Charter, RANS issued for the electric department shall not exceed \$5 million.

Variable Rate Debt. The City should only consider the use of variable rate debt after careful examination of the risks and benefits associated with such an instrument and taking into account the specific market conditions, project financing circumstances, and advice of the City's financial advisor. While the City has a strong preference for the certainty of issuing fixed rate bonds, it can prudently use variable rate debt to balance interest rate cost risk across its debt portfolio. The use of variable rate debt allows the City to take advantage of short-term interest rates, which are typically lower than long-term fixed rates. The use of variable rate debt also provides significant flexibility to prepay debt early when compared to long-term fixed rate debt. The City should target no more than 15% of its outstanding debt to be variable.

Revenue Bonds. The City may issue revenue bonds to fund proprietary activities such as the airport, electric department and water and wastewater enterprises, where the revenues and user fees support operations and debt service requirements. The bonds will include legal covenants to require that rates for services are designed to produce revenues in amounts that are adequate to fund annual operating expenses and annual debt service requirements. Such revenue bonds shall not constitute a general obligation debt of the City.

Capital Leases may be used to purchase equipment, vehicles, furniture and fixtures. The term of any capital lease shall not exceed the useful life of the asset leased. The City may enter into short-term lease-purchase obligations to finance the acquisition of capital equipment and furnishings with estimated useful lives of not more than ten years. Repayment of these lease-purchase obligations shall occur over a period not to exceed the useful life of the underlying asset or in any case no longer than ten years from the date of such obligations or fifteen years from the date of obligations in the case of improvements to buildings.

Derivatives. Currently the City does not use derivatives. Prior to utilizing derivative debt products the City would adopt a derivative policy.

Certificates of Participations (COPs). A form of lease obligation in which the City enters into an agreement to pay a fixed amount annually to a third party, subject to annual appropriation. The term of any COP shall not exceed the useful life of the asset.

Tax status of debt. The City shall first seek to issue and/ or guarantee only tax-exempt debt and avoid, where applicable, non-tax exempt debt in order to reduce interest expense. However, the City recognizes that not all financings will be able to be completed on a tax-exempt basis under applicable law and therefore reserves the right to participate in taxable financing. The City may also issue taxable debt where the flexibility in using taxable debt may outweigh any projected benefits from tax-exempt debt.

DEBT STRUCTURE

Generally, a borrowing by the City should be of a duration that does not exceed the economic life of the improvement or asset that it finances or such other limits as required by law or by the City Charter. The term of the long-term debt instrument should not exceed the useful life of the asset or thirty years, whichever is less. At the time of issuance of any bond, the City should strive to schedule principal payments such that at least 40% of principal is retired within the first half of the bond's life.

The structure should approximate standard amortization schedules for G.O. bonds. 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. There shall always be at least interest paid in the first fiscal year after a bond sale and principal paid starting no later than the fourth fiscal year after the bond issue unless the specifics of the project or financing type require an exception. Capitalized interest shall only be utilized for projects where revenues and/or State aid are expected to offset debt service once a project is brought into operation. Capitalized interest will only be utilized in accordance with applicable State law and upon a finding by City that capitalizing interest is in the City's overall financial interest.

For long-term financing, costs incurred by the City, such as bond counsel and financial advisor fees, printing, and project design and construction costs, will be charged to the bond issue to the extent allowable by law. For short-term financing, bond issuance costs may either be charged to the bond issue or funded through the operating budget. The City may issue notes in anticipation of the receipt of proceeds of long-term bonds, when appropriate and legally permissible, after considering market conditions, need for immediate receipt of funds, and transactional costs. Any such bond anticipation note shall not exceed the principal amount of bonds authorized and its maturity shall not exceed the anticipated issuance of permanent financing.

When undertaking capital projects, the City shall work with Bond Counsel to ensure that proper resolutions are in place so that any applicable expenses can be reimbursed from tax-exempt bond or note proceeds in accordance with Federal tax law.

The City may seek credit enhancements, such as bond insurance, when viable for cost-effectiveness, i.e., when the net debt service on the bonds is reduced by more than the cost of the enhancement.

In choosing the appropriate long-term debt instrument, cost, economic equity, and flexibility will be considered.

The foregoing limitations on debt restructure shall not apply to debt instruments for special financings, such as the U. S. Department of Housing and Urban Development (HUD) Section 108 Loan Guarantee Program, which allows the City to use its annual Community Development Block Grant (CDBG) entitlement grants to obtain federally guaranteed funds to stimulate or pay for major community development and economic development projects. The foregoing limit shall also not apply to The State of Vermont State Revolving Fund (SRF), which is a low interest loan program for the construction of water and wastewater infrastructure projects. Issuance of any debt through the HUD Section 108 Loan Guarantee Program or the Vermont State Revolving Fund (SRF), or other such funds, must be approved by the City Council.

Call provisions for bond issues shall be made as short as possible consistent with market conditions and interest rate environment. Bonds should be callable at par in no more than ten and a half years.

REFUNDING OF CITY INDEBTEDNESS

Refundings will be considered to reduce interest costs or principal outstanding, or to eliminate restrictive debt covenants. The City may issue refunding bonds (as defined for federal tax law purposes) when advantageous, legally permissible, and prudent. The extension of average life should be avoided during the course of a refunding bond issue.

In the case of advance refunding issues (if permitted by law) the City should be mindful of the impact of “negative arbitrage” in the refunding escrow accounts since a significant amount may dilute the potential savings of a refinancing plan. Negative arbitrage is how much of potential debt service savings are lost in funding the escrow to the call date of the debt being refunded. The net present value savings, as expressed as a percentage of the par amount of the refunded bonds should be approximately 5% or more. In addition, for any advance refunding bond, the negative arbitrage as a percent of present value savings shall be no more than 40%.

The City may issue current refunding bonds (as defined for federal tax law purposes) when advantageous, legally permissible and prudent. The City may choose to refund outstanding indebtedness when existing bond covenants or other financial structures impinge on prudent and sound financial management, or as a remedial action legally necessary in order to comply with applicable tax laws for the underlying bond issue. Savings requirements for current or advance refundings undertaken to restructure debt may be waived by the City upon a finding that such a restructuring is in the City's overall financial interest.

SELECTING AND MANAGING SALE OF BONDS

The City will generally conduct long-term financings on a competitive basis; however, negotiated financings may be used as market conditions warrant and depending on the complexity of the financing. The City will consult with its financial advisor prior to a bond sale. The underwriter for a negotiated bond issue should be selected through a Request for Proposals and evaluation process. Short-term financings may be conducted on a competitive basis. Competitive bids will be awarded on a standard industry basis.

Competitive Sale is a method of sale where underwriters submit proposals for the purchase of a new issue of municipal securities and the securities are awarded to the underwriter or underwriting syndicate presenting the best bid according to stipulated criteria set forth in the notice of sale.

Negotiated Sale is a method of sale in which the issuer chooses one underwriter to negotiate terms pursuant to which such underwriter will purchase and market the bonds.

SELECTION AND USE OF BOND COUNSEL

The City will retain external bond counsel for all debt issues. All debt issued by the City will include a written opinion by bond counsel which determines, among other things, the debt issue's federal and State income tax status and affirms that the City is authorized to issue the debt and has met all state constitutional and statutory requirements necessary for issuance.

Selection of the Bond Counsel should be based on, but not limited to, factors such as: experience with financings of comparable issuers, similar size, types and structures; knowledge and experience in public finance tax law; experience with and approach to applicable state and federal securities laws and regulations; and fees and expenses. Bond counsel will be selected following the City's procurement policies, and selected by the firm or individual offering the greatest value to the City. The City will strive to issue a competitive RFP for bond counsel at least every five years.

SELECTION AND USE OF FINANCIAL ADVISOR

The City will retain an external, independent financial advisor which is appropriately registered with the SEC and MSRB as a "municipal advisor" for all debt issues. For each City bond sale the financial advisor will provide the City with, among other things, advice concerning unsolicited proposals, bond structure, issuance modality, information on pricing and underwriting fees for comparable sales by other issuers. During debt issuance planning, the financial advisor will advise the City whether or not a credit enhancement is cost effective under the circumstances and what type of credit enhancement, if any, should be purchased.

Selection of the Financial Advisor(s) should be based on, but not limited to, the following factors: experience in providing consulting services to similar issuers; knowledge and experience in structuring and analyzing complex issues; ability to conduct competitive selection processes to obtain investment products and financial services; experience and reputation of assigned personnel; and fees and expenses. Financial Advisor(s) will be selected following the City's procurement policies, and selected by the firm or individual offering the greatest value to the City. The City will strive to issue a competitive RFP for a financial advisor at least every five years.

INVESTMENT OF BOND PROCEEDS

Bond proceeds will be invested in accordance with the provisions of prevailing state statutes, the bond indenture and the City's investment policy.

Federal arbitrage law is intended to discourage entities from issuing tax exempt obligations unnecessarily or to exclusively gain investment interest on the borrowed funds. In compliance with this law, the City will not issue obligations except for identifiable projects to be timely initiated. Borrowings will be issued as closely as feasible to the date expenses are expected to be incurred to enable bond proceeds to be spent in accordance with applicable Federal tax requirements.

The City shall maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax law. It is the City's policy to minimize the cost of arbitrage rebate and yield restriction while strictly complying with the law.

RATING AGENCY RELATIONSHIPS

In order to secure the lowest possible cost of debt to taxpayers, the City seeks to maintain the highest possible credit ratings for all categories of G.O. debt that can be achieved without compromising delivery of basic City services and achievement of City policy objectives.

The City 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. The City will strive to maintain good communications with bond rating agencies about its financial condition and will follow a policy of full disclosure in every financial report and bond prospectus (Official Statement). City, with the advice of the 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.

FINANCIAL DISCLOSURE AND REPORTING

Financial Disclosure and Reporting: The City is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, City departments, other levels of government, and the general public to share clear, comprehensible, and accurate financial information. The City is committed to meeting secondary disclosure requirements on a timely and comprehensive basis.

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

Continuing Disclosure: The City is committed to providing continuing disclosure of financial and pertinent credit information relevant to outstanding securities and will strictly abide by applicable provisions of Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary market disclosure. The City, with the assistance of its financial advisor and bond counsel, shall periodically monitor recommendations from the National Federation of Municipal Analysts (“NFMA”) on best disclosure practices. These practices should be incorporated whenever deemed practical by the City.

DEBT CAPACITY MONITORING

The Clerk/Treasurer’s Office shall evaluate the City’s debt capacity on an ongoing basis, at least annually, as well as prior to the authorization and issuance of any additional long-term debt. The Clerk/Treasurer’s Office will work with the Burlington School District to perform such analysis when bonding requests are made on behalf of the Schools. When reviewing its debt capacity the City shall take the following factors into consideration:

- Review nature of project being financed to ensure that the project has a beneficial public use and purpose
- Confirm that the asset is “financeable” and has an appropriate useful life
- Measure debt capacity – ability to pay
 - Total debt as percentage of tax base
 - Annual debt service as percentage of budget
 - Amortization of existing debt
- Determine Affordability of Debt
 - Budgetary impact of new debt service payments
 - Impact on additional borrowing needs

POST ISSUANCE COMPLIANCE

Compliance with laws and regulations to maintain the tax-exempt status of the City's bonds and notes and to maintain market access for the City is a goal of great importance. The City shall do all things necessary and appropriate to achieve this goal, including the utilization of third party servicers. The City has adopted a post issuance compliance policy and will review and update such policy as may be necessary to comply with applicable law of as may be recommended by the City's financial advisor or bond counsel.

Statutory Compliance

The City will annually review its debt management policy and practices with its bond counsel and financial advisor, each as appropriate, to maintain compliance with prevailing State and Federal laws and regulations and assure that it meets the goals and objectives of the City. Results of the review will be presented to the Board of Finance and City Council annually.

In the issuance and management of debt, the City shall comply with applicable law. The Clerk Treasurer's Office and the City Attorney's Office shall be familiar with the applicable City Charter provisions and Vermont state law with respect to issuance of debt. The Clerk Treasurer's office shall request that City's bond counsel report to Clerk Treasurer's office as to current law affecting the issuance of planned debt prior to incurrence of such debt.

Appendix: Calculation of Value for PILOT and Fee for Service Payments

Revenue Source, Non City Payers	FY 19 Budget	
Pilot State	\$ 800,000	
Pilot Degoesbriand Unit Pilot.	102,190	
Pilot VPPSA	246,280	
Pilot Cathedral Square	75,169	
Pilot Fern	92,160	
Pilot Burl Housing Authority	102,000	
Pilot Burl Area Foundation	3,990	
Pilot Traffic	64,400	
Pilot Burlington Telecom	76,080	
Fees For Services Fletcher Allen Hospital	473,464	
Fees For Services UVM	1,379,497	
Fees For Services Champlain College	128,153	
Fees For Services Burl Housing Authority	16,740	
Fees For Services Awakening Sanctuary	9,960	
Development Fees Browns Court	260,000	
Pilot Howard Health	57,098	
Pilot Champlain Housing Trust	37,122	
Total Revenue PILOT & FFS (less City Payers)	\$ 3,924,303	
Est. Asset Value (Payments / Tax Rate 2.811 x 100)	\$ 139,605,229	
Total Asset Value Adjusted for CLA (/79.9%)		\$ 174,724,943
 Plus Real Property Value - City Payers		
Water Resources Real Property	33,462,000	
BED Real Property	6,161,900	
Total Asset Value	39,623,900	
Total City Payer Real Property Adjusted for CLA (/79.9%)		\$ 49,591,865
 Plus Asset Value Personal and T&D - City Payers		
Water Resources T&D	18,531,157	
Water Resources Personal Property	6,144,171	
BED T&D	24,036,000	
Total T&D and Personal - City Payers		\$ 48,711,328
 Total Asset Adjustment for Debt Policy		 \$ 273,028,136