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The City of El Paso

DEBT MANAGEMENT POLICY

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Adopted by Council on November 28, 2005

The City of El Paso

Debt Management Policy

1.0 POLICY

It is the policy of the City of El Paso to develop and maintain a sound debt management program. This policy sets forth the parameters for issuing new debt as well as managing the outstanding debt portfolio, identifying the types and amounts of permissible debt, and maintaining the current bond rating in order to minimize borrowing costs and preserving access to credit. It is the intent of the City to establish this policy to provide guidance to staff to:

- Ensure high quality debt management decisions;
- Ensure that debt management decisions are viewed positively by rating agencies, investment community and citizenry-at-large;
- Ensure support for debt issuances both internally and externally;
- Demonstrate a commitment to long-term financial planning.

2.0 SCOPE

The City of El Paso Debt Management Policy (this "Policy") applies to all debt instruments issued by the City of El Paso regardless of the funding source. Funding sources can be derived from ad valorem taxes, general City revenues, enterprise fund revenues or any other identifiable source of revenue that may be identified for appropriate pledging for bonded indebtedness.

3.0 OBJECTIVES

The primary objective of this Policy is to ensure that the City establishes and maintains a solid position with respect to its debt service fund. It is intended to demonstrate that proceeds from long-term debt will not be used for current operations but rather for capital improvements and other long-term assets.

Other objectives include: i) bonds will be paid back within a period not to exceed, and preferably sooner than, the expected useful life of the capital project; ii) decisions will be made based on a number of factors and will be evaluated against long-term goals rather than a short-term fix.; and iii) debt service funds will be managed and invested in accordance with all federal, state and local laws.

4.0 FINANCING ALTERNATIVES

It is the City's intent to develop a level of cash and debt funded capital improvement projects that provide the citizens with the desired amount of City services at the lowest cost. The City may use

both general obligation bonds or certificates of obligations as deemed appropriate by City staff and approved by Council.

4.1 General obligations bonds ("GOB") will be used if the following criteria is met:

- The size of the issuances is $100 million or above.
- Funds will be used for new and expanded facilities, major repair/renovations to existing facilities, and quality-of-life projects.
- Useful lives of assets acquired will be fifteen (15) years or more; or will extend the useful life of an asset for more than (15) years.
- Voter authorized debt

4.1.1 The total dollar amount of bond election propositions recommended to the voters shall not exceed the City's estimated ability to issue said bonds within a normal 6 year period.

4.1.2 The use of reimbursement resolutions shall be encouraged as a cash management tool for general obligation debt funded projects.

4.1.3 Commercial paper can be used as a source of long-term financing for projects that have received voter authorization if City staff has determined that such financing is prudent. It is the policy of the City that the amount of commercial paper outstanding should not exceed 120% of the total investment portfolio of the City. It is the policy of the City that the net amount (total commercial paper less the investment portfolio) of commercial paper outstanding not exceed 25% of the amount of fixed rate debt outstanding. Commercial paper will be converted to refunding bonds when dictated by economic and business conditions.

4.1.4 Quality-of-life projects are defined as projects for the City's Parks, Museums, Zoo, and Libraries. [TO BE REVISED BY LEGAL]

4.2 Certificates of Obligation – For Issuances < $100 million

It is the City's priority to fund the majority of capital projects with voter-approved debt. However, on occasion, it becomes necessary to seek additional financing in order to fund a particular non-quality of life project(s). COs will be issued for the following projects/acquisitions:

- Capital asset acquisitions (heavy equipment, vehicles, IT equipment, etc.)
- Rehabilitation and/or extension of the useful life of existing facilities
- Street resurfacing
- Unpaved Rights of Way
- ADA retrofitting/rehabilitation projects

- Street lighting
- Infrastructure projects (street and draining work)
- Emergency city facilities rehabilitation (storm water draining, etc.)
- Major core service facilities (police, fire, streets, etc.)

Furthermore, certificates of obligation or other long-term debt may be considered if the following criteria are met:

- The need for the project is urgent and immediate;
- The project(s) is necessary to prevent an economic loss to the City;
- Source of revenue is specific and can be expected to cover the additional debt;
- The expected debt is the most cost effective financing option available.

In addition, the average maturity of non-voter approved debt shall not exceed the average life of the project financed. Capital items shall have a value of at least $5,000 and a life of at least four years.

Reimbursement resolutions may be used for projects funded through certificates of obligations.

4.3 Certificates of Obligations – Enterprise Fund
Certificates of obligation for an enterprise system will be limited to only those projects, which can demonstrate the capability to support the certificate debt either though its own revenues, or another pledged source other than ad valorem taxes and meet the same criteria as outlined in (c) above.

4.4 Revenue Bonds
Revenue bonds will be issued for projects that generate revenues that are sufficient to repay the debt. Except where otherwise required by State Statutes, revenue bonds may be issued without voter approval and only in accordance with the laws of Texas.

4.5 Other debt obligations
The use of other debt obligations, permitted by law, including but not limited to public property finance act contractual obligations, pension obligation bonds, tax notes, and lease purchase obligations, will be reviewed on a case-by-case basis. The findings in 4.2 above will be considered for the use of these obligations.

5.0 REFUNDING OF DEBT

5.1 Advance refunding and forward delivery refunding transactions for savings should be considered when the net present value savings as a percentage of the par amount of refunded bonds is at least 3%.

5.2 Current refunding transactions issued for savings should be considered when the net present value savings as a percentage of the par amount of refunded bonds is at least 2%.

5.3 From time to time, the City may also issue refunding debt for purposes of restructuring debt, changing covenants, and/or changing the repayment source of the bonds. Such purpose should be specifically recognized by City Council.

6.0 DEBT LIMITS

6.1 The total principal amount of general obligation bonds together with the principal amount of all other outstanding tax indebtedness of the City shall not exceed ten percent of the total assessed valuation of the City's tax rolls.

6.2 Since debt service payments represent a fixed expense of the City's total annual operating budget, debt service as a percent of total expenditures should not exceed 15%.

7.0 MATURITY LEVELS

7.1 The term of debt shall not exceed the expected useful life of the capital asset being financed and in no case shall it exceed 30 years. The average (weighted) general obligation bond maturities shall be kept at or below 15 years.

8.0 MANAGEMENT OF DEBT SERVICE FUND

8.1 Interest earnings from general obligation bonds and certificates of obligation shall be used solely to fund direct or related capital expenditures or to service current and future debt payments. Interest earnings will be allocated in accordance with the City's Investment Policy, adopted annually by Council.

8.2 Debt service reserves for tax-supported debt shall not exceed a three-month reserve of the current year total debt service expenditure budget (i.e. Total Annual Debt Service Budget/12 month x 3 months). If this reserve balance is exceeded during any given fiscal year, a plan should be adopted to reduce the size of the reserves as quickly as possible without causing large variances in the ad valorem property tax rate.

8.3 The minimum debt service unrestricted fund balance should exceed the debt service portion of the largest taxpayer's tax levy for the ensuing fiscal year.

8.4 Debt service reserves for revenue bonds shall be maintained at levels required by controlling bond ordinances.

8.5 The City shall comply with all Internal Revenue Service rules and regulations including but not limited to arbitrage.

9.0 DEBT SERVICE TAX RATE

9.1 Council shall adopt the necessary debt service tax rate up to a maximum amount of twenty-five cents (25 ¢) per $100 valuation in order to meet debt service principal, interest and fees payments, net of transfers, for each particular fiscal/budget year, subject to any reserve availability as outlined in 8.2 above.

10.0 RATINGS

10.1 The City will strive to maintain good relationships with bond rating agencies as well as disclose financial reports and information to these agencies and to the public.

10.2 The City will obtain a rating from at least one nationally recognized bond-rating agency on all issues being sold on the public market.

10.3 Timely disclosure of annual financial information including other information will be provided to the rating agencies. The Comprehensive Annual Financial Report (CAFR) will be prepared by management and attested to by an outside nationally recognized audit firm.

10.4 Timely disclosure of any pertinent financial information that could potentially affect the City's credit rating will also be presented to the ratings agencies required information repositories, bond insurance companies insuring City of El Paso debt and commercial banks providing liquidity support for commercial paper programs.

11.0 INVESTMENT POLICY REVIEW

11.1 This Debt Management Policy shall be reviewed at least bi-annually by the City Council and any modifications must be adopted by Council.

City of El Paso
Fact Sheet - Debt Management Policy
December 1, 2005

Background

An expanded external audit by KPMG recommended that the City of El Paso consider and adopt various financial policies. Advantages of formal policies were:

- Promote stability and continuity
- Improve efficiency and quality control
- Bond rating agencies look favorably on organizations with formal policies
- Education tool for decision makers and new employees
- Promote long-term and strategic thinking

One of those financial policies recommended was a debt management policy.

The Government Finance Officers Association (GFOA) lists a debt management policy as a "recommended practice." GFOA specifically "recommends that all state and local governments adopt comprehensive written debt management policies, and that governments review them at least annually and revise them as necessary." It also identifies certain criteria that a debt management policy should contain.

Furthermore, a debt management policy is one of the "Six Critical Components of Strong Municipal Management" as noted by Moody's Investor Services, and one of the "best practices an issuer can employ to strengthen its credit position" as noted by Fitch Investor Services.

Q&A

Why should the City of El Paso adopt a debt management policy?

The adoption of a debt management policy provides 1) bondholders with reassurances that debt burdens and operational debt costs will be kept at manageable levels, and there is a plan in place to meet capital needs; 2) provides staff with a framework to work from and assures Council that any proposal brought forward by staff meets the policy guidelines set out by Council; 3) assures continuity in financial operations whether there is a change in council or management; 4) generally debt policies are looked upon favorably by rating agencies as a strength and good management practice.

Why should the City's debt management important to the Community?

Debt management is important to the community because it tells the public what a city will or will not do with respect to debt; how much debt it will issue, what types of debt; and when it is appropriate to issue that debt.

Why do we have different kinds of debt?

We have different types of needs that can be funded in different ways. For example, infrastructure needs of the community need to be addressed more immediately than a quality of life project. We need to be able to have a debt instrument that avails the City the opportunity to fund these types of needs. Revenue bonds also give the City another opportunity to fund certain projects such as solid waste services or the City's international airport, where there are dedicated revenue sources separate from the general fund tax base.

Does the policy impose a debt limit on the amount of debt that the City can issue?

Yes, the policy sets a ceiling of 25 cents per $100 valuation for the debt service tax rate.

What are the consequences of not having a debt management policy?

Although a City may run without a debt management policy, it is a good management tool to have in place per all of the above. The City is one of the top 50 largest cities in the United States and the only Texas city on that list that does NOT have a policy in place. Clearly, it is a good practice to have one.

Adoption

With these recommendations in mind, the City Manager and staff brought forward a draft of the Debt Management Policy as requested by City Council at its regularly scheduled meeting of November 1, 2005. The issue was remanded to a Legislative Review Committee of the Council for more detailed review.

Given the significance of the issue, the LRC Chairman of the Fiscal Affairs/Internal Audit LRC requested that the issue be brought before the full council at a special council meeting. As such, the Mayor called for a special city council meeting on November 28, 2005.

City Council adopted the Debt Management Policy at a Special City Council Meeting on November 28, 2005, by a vote of 6-2.