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DEBT CHARACTERISTICS POLICY

This policy is intended to guide the structure of debt instruments to ensure the cost effective and timely repayment and minimize the risk to the investor.

Type of Instrument - The type of instrument utilized will be determined based on the purpose, term, and market conditions at the time of issuance to provide the City with the greatest flexibility and least cost. The City will not generally consider derivatives as part of its financing plan. This presumes the particular debt issuance has received an affirmative vote of the people or judicial confirmation.

Feasibility and Sizing of Debt Offerings - In determining the feasibility and size of a debt offering, City Administration shall verify that the available funding and current appropriation, as represented by city staff and/or financial experts, is sustainable and adequate to cover the debt service and ongoing operating and maintenance costs of the facility or equipment for which the debt issue is proposed.

Repayment Provisions - To the extent possible, the City will design the repayment of a debt issuance in context of the fund's overall debt, annual cash flow capacity and long-term financial sustainability.

Term of Debt - The term of any debt issuance shall not exceed the useful life of the project, facilities or equipment financed with proceeds of the debt issuance.

Debt Service Fund and Debt Service Coverage – Each year when the City appropriates funds, the funds will be appropriated for in the Debt Service account sufficiently to cover the payment according to the terms of each borrowing for those borrowings issued for non- enterprise departments.

Additionally, the City will reserve a sufficient debt service coverage level from the proceeds of a bond issue and/or available revenues in the Debt Service account in accordance with applicable bond covenants and rating agency requirements.

Fixed Rate and Variable Rate Debt - The City may issue debt that has a variable rate in order to achieve savings. Periodically City Administration will analyze each outstanding variable rate debt issue to determine if the issue should be converted to fixed rate debt and report findings to City Council for consideration and further direction.

Credit Enhancements and Rating - The City may use credit enhancements (letters of credit, bond insurance, etc.), but only when net debt service on the debt issue is reduced by

more than the costs of the enhancement. The City will seek a credit rating on all new issues which are expected to be sold in the public market.