I. Purpose

The purpose of this Debt Management Policy (the "Policy") adopted by the City of Ashland, Missouri (the"City") is to provide guidance for the types of debt issued, the issuance process, and the administration of the debt portfolio.

This Policy is intended to guide decisions, identify policy goals, and demonstrate a commitment to financial planning. Stakeholders in the debt issuance process, including bond buyers, rating agencies, and citizens, recognize the importance of having a structured framework in which to issue debt and meet those obligations.

Though this Policy gives guidance for making decisions, it is not intended to be inclusive of all debt issuance types and scenarios. External factors affecting the Policy can change over time; therefore, the Policy shall be reviewed on an annual basis by the City Treasurer, and any modifications made to the Policy shall be approved by the City Administrator and Board of Aldermen. Authority to manage the Policy is granted to the City Treasurer. Debt will be issued in accordance with all applicable federal and state laws, City Ordinances and the Tax-Exempt Financing Compliance Procedure adopted by the City on September 17, 2013.

II. Types of Debt

The City has elected to limit the use of debt to certain circumstances. The City's debt issuance has the following general limitations:

1. Long-term debt will not be used to fund current operations.
2. The capital project or asset to be financed must lends itself to debt financing rather than pay-as-you-go funding based on the expected useful life of the project or existing market conditions.
3. Other financing options have been reviewed and are not viable for the timely or economic acquisition or completion of a capital project.
4. Short-term debt may be used to provide liquidity for capital projects until long-term financing is available; generally, the City will take steps to avoid issuing short-term debt for ongoing operations.
5. Long-term debt will have an identified revenue stream or other financial resources sufficient to meet future principal and interest payments, although this shall not prevent the issuance of obligations secured by annual appropriations that may be made from such revenue streams or financial resources.

The City has the ability to issue many different types of debt to meet its financing objectives. The following is a listing of types of permitted debt and general guidelines as to their use. The following list is not intended to preclude the use of any financing options not listed.

A. General Obligation (Maximum Term – 20 years)

General obligation (G.O.) bonds have the backing of the full faith and credit of the City, because of the City's authority to levy property taxes for debt service. G.O. bonds are authorized by the approval of the requisite number of qualified voters, as required by state statute and the state constitution. As such, G.O. bonds can be used to finance capital expenditures approved by voters. The sum of all G.O. debt outstanding, regardless of type, is governed by the City's legal debt margin. The City may incur indebtedness for authorized purposes not to exceed 10% of the valuation of taxable tangible property in the City for general purposes, with an additional 10% for certain purposes specified by state statues and the state constitution, provided that the total may not exceed 20% of the valuation of taxable tangible property in the City. Neighborhood Improvement District ("NID") debt is issued as a limited form of G.O. debt and counts against the legal debt margin.

1. General Obligation Bonds - Full faith and credit. To be issued for capital projects which benefit the City as a whole. Principal and interest is to be paid from the City's debt levy assessed on all taxable tangible property. The Board of Alderman may set the tax rate for debt service, without limitation as to rate or amount, at the level required to make such payments.
2. NID Bonds – Limited General Obligation Bonds. To be issued for capital projects which benefit a particular area of the City. NID bonds are payable (i) from special assessments that are levied and assessed upon real property benefited by the project financed with the proceeds of the bonds, (ii) to the extent required, from the first available moneys in the City's general fund or other legally available funds, or (iii) any combination of items (i) or (ii). The City is not authorized to impose any new or increased ad valorem property tax to pay principal of or interest on NID bonds without the voter approval required by the constitution and laws of the state.

B. Annual Appropriation Obligation (Maximum Term –No Legal Maximum)

The City is authorized to incur annual appropriation debt without voter approval for the purchase, construction, or expansion of City projects or equipment. This debt is not backed by the full faith and credit of the City, but instead the City's pledge of annual appropriations.

As security, the City pledges an annual appropriation from general revenues or a specific stream of revenues. The rating agencies consider the annual appropriation pledge as a very serious commitment of the City, but less secure than G.O. or revenue bond debt, which is reflected in the credit quality of the debt. While the Board of Alderman has the legal authority to appropriate such commitments on an annual basis, the City enters into annual appropriation debt with the full expectation of making whatever annual appropriations are necessary to fund debt service on a timely basis.

1. Lease-backed debt obligations. The City may issue tax-exempt and taxable leasehold revenue bonds and certificates of lease participation by using a trust structure. Projects are to be limited to public purpose capital expenditures as described above. Capital leases are not considered an indebtedness of the City because the lease payments are subject to annual appropriation; however, from a variety of perspectives (e.g. credit, accounting, etc.) all or most of this type of debt may be considered an obligation of the City. Typically, the financed asset is leased to the trustee on a long term basis and then leased back to the City for the term of repayment. If the City fails to appropriate funds for debt service, possession of the financed asset will be forfeited to the trustee for the remainder of the long term base lease.

2. Lease Purchase. It is the City's policy not to issue short term lease-purchase debt, meaning the financing of assets with a useful life of less than 10 years. Legally, the City may enter short-term lease-purchase agreements to finance capital improvements, including acquisition of equipment with an expected useful life of less than ten years. Principal and interest is to be paid from the operating budget or other dedicated resources of the department purchasing equipment or constructing the capital improvement.

C. Revenue (Maximum Term – 35 years)

Revenue bonds may be issued to fund capital projects related to certain governmental enterprise functions or for special projects supported by distinct revenue sources. Examples include water, sewer and electric production facilities. They are designed to be self-supporting through user fees and other specified receipts, or taxes and do not rely on the general taxing powers of the City. Principal and interest is paid from net revenues from operations of the particular enterprise or directly from the earmarked revenue source. Revenue bonds secured by certain dedicated revenue streams, such as sales taxes, are to be authorized by voter approval.

D. Temporary Loans (Maximum Term –Flexible)

The City can use short-term funding, primarily temporary notes, to provide interim funding for capital projects until long-term debt is issued. In most instances, temporary notes are redeemed with subsequent long-term debt. Temporary notes will generally have a one-year maturity, with principle and interest paid at maturity, though longer maturities are allowed if the project necessitates.

III. Amount of Debt

The amount of debt required is derived from the underlying capital project or expenditure. The ability of the City to identify and commit resources to meet debt obligations also limits the amount of debt issued. A financial analysis will be performed to evaluate the financial impact of the debt size.

A. Fixed or Variable Rate Debt

The City will in most circumstances pursue traditional, fixed-rate bond structures, where at the time of bond sale, all interest rates are known and do not change over the life of the issue. Variable interest rate bonds have interest rates that reset on a periodic basis or in response to certain changed conditions of the bonds. Particular conditions may arise where the City would consider the use of variable interest rate bonds, such as an adverse fixed-rate municipal market or the potential to accelerate debt retirement.

Variable interest rate debt exposes the City to interest rate risk over the term of the financing. The City can use unhedged variable rate bonds as part of a comprehensive asset/liability management program and will use various risk mitigation procedures. This includes investing excess cash to earn investment income that can be used as a direct offset to rising rates on the unhedged variable rate bonds. Excess cash means amounts not available for operations or used to earn regular investment income for City funds, and must be invested in an internally-restricted portfolio hedge instrument.

B. Taxable vs. Tax-exempt Debt

The City shall first seek to issue only tax-exempt debt and avoid taxable 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 and therefore reserves the right to participate in taxable financings if necessary.

C. Repayment Term

The City will structure its debt to comply with all federal, state and local requirements as to repayment terms. The City will manage financial resources in such a way to repay its debt in an expeditious and timely manner. Unless a specific situation necessitates, principal and interest payments will be made electronically via wire or ACH.

For debt requiring a debt service reserve fund, the City may structure payment of the bonds to account for the release of the debt service reserve fund as an offset to the final principal and interest payment.

D. Prepayment Provisions

Redemption provisions and call features shall be evaluated in the context of each bond sale to enhance marketability of the bonds, to allow flexibility, or to enable future refunding. The potential of additional costs, such as a call premium and higher interest rates, which result from including a call provision, will also be evaluated.

IV. Bond Counsel

Bond counsel will be retained for all debt transactions to provide assurance to the City and investors that the bonds are legal and tax requirements have been met. In addition to standard required documentation, bond counsel must issue an opinion that the obligations are validly issued by the City.

V. Financial Advisors and/or Municipal Advisor

Financial advisors and/or Municipal Advisor assists in the structuring and issuance of bonds through the competitive or negotiated sales process. A financial advisor and/or municipal advisor represents only the City in the sale of bonds. While serving as the City's financial advisor and/or municipal advisor, a firm may not underwrite City bonds, and also may not switch roles from financial advisor and/or municipal advisor to underwriter after a financial transaction has begun within the term of the contract. At the City's discretion, the City may or may not use the services of a financial or municipal advisor.

VI. Other Parties

Depending on the specific bond issue, other parties customary in the bond issuance process may need to be engaged, such as paying agents, trustee banks, or bond insurers. The City will retain those professional services as needed.

VII. Debt Administration

Proactive debt management is a key component to the immediate and long-term success of the City's objectives. Once issued, the professional oversight of individual issues and monitoring of the City's debt portfolio will allow for favorable financial positioning.

VIII. Defeasance, Prepayment and Refunding

Accelerated retirement and restructuring of debt can be a valuable debt management tool. Accelerated retirement occurs through the use of defeasance and the exercise of prepayment provisions. Debt is often restructured through the issuance of refunding bonds.

Prepayment provisions are structured into the original bond issue. These opportunities take the form of using cash or borrowed funds to reduce all or a portion of outstanding principal and future debt service obligations.

Debt can be refunded using current or advance refunding methods to achieve one or more of the following objectives: reduce future interest costs, restructure future debt service, or modify the legal requirements or bond covenants of the original issue. The City will generally look to structure the refunding bonds in the same way as the original debt. It should be noted that, under current law, advance refunding may only occur on a taxable basis.

IX. Investment of Bond Proceeds

The City will seek to lower its cost of borrowing through the investment of bond proceeds, including debt service funds, debt service reserve funds, and construction funds. Draw downs of construction proceeds will be managed to maximize investment opportunity. Debt service funds and construction funds will be part of the City’s investment pool and invested in the safest investments that optimize return on investment. Debt service reserve funds and other funds held by a trustee bank are to be invested in the safest investments available while earning a return. Bond proceeds and certain other funds will be invested in accordance with bond documents prepared by bond counsel.