DEBT POLICY

The ability of the City to incur debt is limited by Article VI of the Constitution of the State of Missouri. Section 26(a) of the Article provides that a city may not become indebted in an amount exceeding in any year, the income and revenue provided for such year plus any unencumbered balances from previous years, except as set forth in Section 23(a) and Sections 26(b-e). Section 27 of the Article provides that a city may issue revenue bonds for the purpose of paying all or part of the cost of purchasing, constructing, extending or improving municipal utilities.

The City of Raymore is authorized under the aforementioned Articles, to issue General Obligation Bonds, Revenue Bonds, Special Revenue Bonds and Certificates of Participation. When determining the type of bond to issue, the following factors are considered:

- The direct and indirect beneficiaries of the project to be financed. The larger proportion of citizens should benefit from projects financed with General Obligation Bonds.
- The lifetime of the benefits generated by the project.
- The revenues that may be raised by alternative types of user charges.
- The cost-effectiveness of user charges.
- The effect of the proposed bond issue on the City's ability to finance future project of equal or higher priority.
- The true interest and net interest cost of each type of bond.
- The impact on the City's financial condition and credit ratings.

General Obligation Bonds

The City issues General Obligation Bonds payable from ad valorem taxes to finance capital improvements and equipment. The Missouri Constitution, Article 26 permits the city to general obligation indebtedness, not to exceed 10% of the assessed valuation of taxable real and personal property for city purposes and an additional 10% for the purpose of acquiring rights of way for city infrastructure.

General Obligation Bond financing is intended for financing the capital improvements and long-term assets essential to the maintenance, development and growth of the City.

Revenue Bonds

The City issues Revenue Bonds payable from the operations of its utility enterprise. Revenue Bonds are used to finance capital improvements and expansion of the City's water and sanitary infrastructure and facilities. These bonds are not considered when assessing the legal debt margin of the City, but their impact on the fund balance is budgeted.

Special Revenue Bonds

The City issues Special Revenue Bonds payable from the revenues or taxes generated by the asset or project financed, for example the City's parks. These bonds are not considered when assessing the legal debt margin of the City.

Certificates of Participation

Certificates of Participation are instruments of financing used by the City that are, in essence capital leases. The amount is financed over a period of years and is considered when assessing the legal debt margin of the City.

Tax Anticipation Notes/Revenue Anticipation Notes

Tax or Revenue Anticipation Notes are short-term financing provided by financial institutions in anticipation of expected tax revenue receipts for general operating revenues or special projects. Tax revenue receipts streams will fluctuate during the year or over the life of a project and these annually renewable notes are used to even out cash flows. While the City may utilize these notes for day-to-day operations, it intends to only utilize this form of debt for special projects, such as the Municipal Complex and the Public Works Facility.

General Policy

All forms of financing mentioned above <u>are</u> considered when preparing the City's budgetary information.

The City will only issue debt for the beneficial life of the asset or project or a maximum of 20 years.

The City will actively monitor its investment practices to ensure the maximum return on invested bond funds while complying with Federal arbitrage guidelines. The Finance Department will actively monitor outstanding debt issues to verify compliance with debt covenants.

Financial Advisor

The City may retain the services of a Financial Advisor to assist the City in identifying capital financing alternatives and planning its debt program. The financial advisor should have no affiliation with the underwriting of a particular issue of the city.

The financial advisor shall determine which bid for the city's bonds is best by reviewing the pricing of comparable issues, talking to potential investors, identifying other similar issues that are likely to be in the market at the same time, and assessing the level of competition among various underwriting firms when the City utilizes the Negotiated Sale process.

The financial advisor and/or employees of the financial advisor shall not have made political contributions to any candidate for public office in the city for a period of three years preceding their selection as financial advisor.

Financial Underwriter

The financial underwriter and/or employees of the financial underwriter shall not have made political contributions to any candidate for public office in the city for a period of three years preceding their selection as financial underwriter.

Method of Bond Sale

When appropriate, new debt issues and refunding of existing debt issues will be offered utilizing the **competitive bid** process. In a competitive sale, the financial advisor will assist in determining the structure and timing of the issue prepare bond documents and rating agency presentations, evaluate the best bid, and assist in the closing transaction.

Refunding of Existing Debt

The City will consider undertaking a refunding when one or more of the following conditions exist:

- The present value of all refunding costs, including interest, call premium, bond counsel, financial underwriter discounts and any other issuance costs; are less than the present value of the current interest. Desired net present value savings should approximate a minimum of three percent (3%).
- The City wishes to restructure debt service to provide for further financing or to maximize its cash position.
- The city wishes to eliminate old bond covenants that may have become restrictive or incongruous to the city's policies.

Federal Arbitrage Compliance

Arbitrage is the difference between the yield on an issuer's tax-exempt bond and the investment income earned on the proceeds. Arbitrage profits are earned when low-yielding tax-exempt bond proceeds are invested in higher-yielding taxable securities.

Federal arbitrage restrictions imposed by the Federal Government prohibit an issuer from retaining arbitrage profits when investing bond proceeds at a yield that exceeds the yield on the bonds. The City will enlist the services of a reputable profession firm to calculate the potential of any arbitrage liability and rebate, if any such liability to the U.S. Treasury in accordance with federal guidelines.