

City of Gahanna

Debt Policy

The purpose of this debt policy is to establish parameters and provide guidance governing the issuance, management, evaluation, and reporting on all debt obligations of the City of Gahanna. Implementation of this policy will enhance the quality of decisions, provide a framework for the decision-making process and demonstrate the City's commitment to long-term fiscal sustainability and sound financial planning. Adherence to a debt policy helps to ensure that a government maintains a sound debt position and that its credit quality is protected.

The following policies are intended to govern the issuance of all City debt:

Duration of Debt: The City does not intend to issue debt for a period longer than the period during which it intends to use the capital improvement being financed. The Ohio Revised Code provides guidelines on the maximum period of time for which capital improvements may be financed. However, the duration permitted by law may often exceed the City's expectations of the practical economic life of an asset. The City intends to have debt fully retired during the expected useful life of the asset being financed. In any event, Gahanna does not expect to issue debt with a final maturity more than 30 years from the date of issuance.

Revenue Identification: The City will identify a specific source of revenue for the repayment of each issuance of securities and report to the City Council the expected impact on rates and user fees prior to the issuance of the debt. The City has several sources of revenue that are available or may become available for the repayment of debt including but not limited to income tax revenue, enterprise fund revenue or tax increment revenue. Even when debt supported by property tax is issued, the City will identify a specific stream of revenue intended to support each issuance of debt.

Use of Property Tax: The City may issue limited tax general obligation bonds to support its capital programs. Such bonds are secured by taxes imposed under the constitutional ten mill limitation. Those property taxes are currently levied and distributed among various political subdivisions that overlap the City. The City will generally use alternative sources of revenue to service its debt and it will set rates and charges to ensure that there is adequate revenue available to do so without drawing upon the property tax pledge.

Cash Financing from Available Sources: The City has historically paid for a significant portion of its capital budget on a cash basis. It expects to use cash to pay for capital expenditures that recur on a routine basis or when reserves are available that are not expected to be needed for other purposes in the foreseeable future.

Use of General Obligation Debt: The City intends to use general obligation debt for non-enterprise capital improvements which it considers to be part of its “core” mission. To the extent that the City has sufficient general obligation capacity under the ten mill limitation and direct and indirect statutory debt limits, it will consider issuing general obligation bonds for its various enterprises. In no case will the City issue general obligation debt for capital improvements that could be financed through the issuance of revenue bonds if such issuance would reduce the available millage under the constitutional ten mill limit to below 2 mills.

Alternative Financing: The City will actively seek sources of financing (either grants or low interest loans) as an alternative to entering the capital markets. All reasonable sources of such low cost capital will be considered prior to recommending bond or note financing to the City Council. The goal in seeking such alternatives is to (i) reduce the cost of capital and (ii) preserve the debt capacity of the City and its various enterprises. Such programs often offer non-callable loan programs for a period of up to 30 years. These financing options should normally be considered (i) during periods of low interest rates and (ii) when it is clear that the use of such programs has the least impact on future rate increases (in the case of utility projects).

Economic Development: From time to time, the City is asked to support economic development projects through the creation of tax increment financing districts. The City will be guided by the following policies in determining the level of support that it will provide to TIF projects.

- **General Obligation Support:** The City will consider placing its general obligation support behind an issuance of TIF supported bonds if the proceeds are being used to construct capital improvements already part of the City’s long term capital plan. As a general rule, the City will not lend general obligation support for developer driven projects where the improvements would not consistent with the City’s long-term economic development objectives.
- **Development Risk:** The City will use its best efforts to avoid assuming “development risk” – the risk that a project will be completed on a timely basis and generate the assessed valuation projected by the developer. The City will seek meaningful guarantees from the developer to insulate the City against development risk. Tools available to reduce the City’s exposure to development risk include personal or corporate guarantees from the developer, letters of credit provided by the developer, guaranteed minimum TIF payments, and the issuance of TIF revenue bonds directly to the developer.

Refunding: Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding or the refunding is essential in order to modernize covenants to thereby improve operations and management.

Cash Flow Borrowing: The City has no intention of borrowing for cash flow purposes. Borrowing will be limited to long term capital expenses only.

Derivative Products: The City does not currently expect to entertain the use of derivative products including swaps, swaptions or other long term interest rate management contractual relationships. It will not entertain purchasing such products until such time as such issues as counterparty risk, collateral requirements, termination risk and other risk factors have been formally incorporated into the City's debt policy and shared with the rating agencies.

Debt Management Procedures: The Administration will create and maintain operational procedures guiding the City's debt management function, and such procedures will be consistent with this policy.

The Debt Policy is not intended to unduly restrict the debt program of the City. It is intended to guide it and provide both the Council and Administration a framework for making debt related decisions. From time to time, debt proposals with characteristics that deviate from these parameters may be advantageous to the City. If such proposals are brought to the Council, it should be fully disclosed the extent to which the proposal complies with this policy. In instances where proposals are not in compliance with the policy, those aspects of the proposal should be disclosed and a rationale for deviating from the policy will be provided.