CITY OF HOOVER

MUNICIPAL DEBT POLICY

Purpose. The City of Hoover recognizes the foundation of a well-managed debt program by setting forth parameters in a comprehensive debt management policy.

Generally. The City's annual revenues typically are not adequate to finance all the nonoperating expenditures for capital improvements or capital projects approved by the City Council each year. The acquisition and/or construction of capital assets benefit the citizens over the long term but generally have significant costs associated with them; therefore, it is prudent to spread the cost of such expenditures over more than one year. Borrowing, through statutorily authorized mechanisms for the issuance of municipal securities or the incurring of municipal debt, is the means through which the City can obtain sufficient funds to acquire and/or construct capital projects or capital improvements and then allocate the cost of the same in such a manner that the debt can be repaid from annual municipal revenues over a period of several years. Balancing this advantage are considerations of the costs of such transactions, including debt service, interest rates, issuance fees, and administrative costs.

Municipal Debt Policy. The City shall strive to maintain conservative polices for issuing debt and managing the City's level of outstanding indebtedness and annual expenditures for debt repayments by adhering to the following standards:

1. *Applicable Laws.* All debt issuances will be accomplished in compliance with federal regulations, state law, city ordinances, and all other applicable legal constraints. Applicable state laws include, but not necessarily limited to, Code of Ala. 1975, §§ 11-47-2, 11-81-4, 11-81-1 et seq., 11-81-50 et seq., 11-81-110 et seq., 11-81-220 et seq., 11-85-100 et seq., 11-81-30, 11-63-2 and 11-81A-1 et seq.
2. *Outstanding Debt.* The City shall endeavor to minimize the amount of its outstanding debt and to borrow funds only when incurring debt is necessary for capital projects. Other sources, such as pay-as-you-go financing, cash reserves, grants, or down payments on capital amounts should be considered to minimize the issuance of debt.
3. *Maximum Debt Limit.* The City shall limit its debt in accordance with Ala. Const. article XII, § 225.
4. *Factors To Be Considered.* When a financing is being considered, the City will evaluate the impact on the City's credit rating, the legal debt limit (Ala. Const. article XII, § 225 alternately cite as Ala. Const. amendment number 268), future operating budgets, and local ordinances of fund balance reserve requirements. The City will also consider, with the underwriter and/or financial advisor, whether the debt issue should be secured by a general obligation full faith and credit pledge or a revenue

pledge. Financial projections will be used to evaluate the effect of the repayment of such borrowings on fund balances in future fiscal years.

5. *Purpose Of Incurring Debt.* Debt will be issued primarily to finance the acquisition of construction of capital assets, including land for public use or in accordance with the City's economic development plan. Annual operating costs, including employees' services, will be financed from current revenues or fund equities, as approved by the City council.
6. *Nontaxable/Private Activity.* When in the best interest of the City, any debt issued will be with the intention that the interest is not includable in gross income for federal income tax purposes, which will be determined and verified by bond counsel as correct pursuant to U.S. Code § 103 (a). During the term of such debt, the City will take the necessary precautions to ensure that such obligations do not become subject to a determination that the same is "private activity" pursuant to U.S. Code § 141 (b).
7. *Payment Periods.* The repayment periods for long term debt issuances will not be extended beyond the expected useful life of the capital asset being acquired with the proceeds of the financing. Debt repayment periods will be as short as feasibly possible to minimize interest costs and maximize flexibility for future financial planning.
8. *Interest Rates.* The City will, when in its best interest, issue debt with fixed interest rates, especially during times when interest rates are relatively low. If variable rate debt is utilized, the staff, Mayor, and the City Council must have a clear understanding of the advantages of doing so and the interest rate and fees are being calculated.
9. *Bond Ratings.* It is the City's goal to obtain and maintain the best possible bond rating at both Moody's Investor's Services and Standard & Poor's to minimize interest rates on debt.
10. *Ratings Presentation.* When the City elects to incur debt, it may be necessary to make a formal presentation to the rating agencies. The underwriter or financial advisor to the City will coordinate the bond rating process and prepare any rating agency presentation. The presentation may require a group of elected officials, City staff members, and municipal bond professionals to incur travel expenses. All travel expenses will be reasonable and only include persons required in making the presentation.
11. *Insuring The Issue.* At such time that it is practical to consider municipal bond insurance to enhance the City's credit rating and minimize interest costs, proposals will be solicited from qualified insurance companies. The City's underwriter or financial advisor will perform a cost benefit analysis of the advantages of purchasing insurance and make a recommendation to City staff.
12. *Sale of Debt.* Most complicated financings will be sold by means of a negotiated sale, in which the underwriter is chosen at the beginning and is involved in the entire

process. The City reserves the right to utilize a competitive process if it determines that is in its best interest. A financial advisor may also be employed on a negotiated sale or hired by retainer to advise the City on all debt and financial matters.

13. *Bond Counsel.* The City will engage a competent and reputable attorney who is knowledgeable in municipal funding in the state to act as bond counsel on the issue.
14. *Underwriters.* On each financing through a negotiated sale, the City will engage a competent and reputable bond underwriter specializing in municipal financing in the state. The City may elect to engage an underwriter as a financial advisor in that such advisor shall be financially disinterested in any recommended financial strategy that is the subject of the advisor's contract for a period of a year.
15. *Leasing Options.* Capital leasing may be considered to finance the acquisition of equipment items with an expected useful life of three (3) years or longer when determined to be in the best interest of the City. The City will consider alternate financing sources including cash reserves, local bank financings, warrant issues, and grants.
16. *Refunding Debt.* The City may refund debt in accordance with applicable legal requirements to take advantage of interest rate savings and/or to make changes in bond covenants.
17. *State Revolving Loan Program.* The City may also elect to finance capital assets through participation in a state revolving loan program (Code of Ala. § 11-85-100 et seq).
18. *Arbitrage and Continuing Disclosure.* The City will comply with arbitrage rebate requirements and the SEC continuing disclosure requirements. Arbitrage rebate calculations will be done on the mandated anniversary dates.
19. *Swap Transactions.* The City will not engage in "swap transactions," or participate in any other alternative or unconventional types of financing unless specifically authorized by the City Council. Under such circumstances, the Mayor, City Council and City staff must clearly understand the transaction.
20. *Paying Agent.* A paying agent will be selected for each financing to accept the City's debt service payments and disburse payments to warrant holders. In cases where there is an active construction fund, the paying agent will process payments to vendors based on requisitions and documentation supplied by the City, including invoices and council resolutions.
21. *Enforcement Of the Policy.* The City's Chief Financial Officer shall be responsible for the enforcement of this debt policy. The Mayor and City Attorney shall assist in the implementation of the policy. This policy is meant to be a guide to the City in evaluating various options for debt issuance to finance capital improvements and provisions.