City of Portland, Oregon--Debt Management Policy

I. GENERAL PROVISIONS

A. **Purpose of Debt Management Policy.** This Debt Management Policy provides a general framework under which the City plans for and manages the use of debt financing. This Debt Management Policy should be considered within the broader scope of the City's Comprehensive Financial Policies and other City rules and regulations. In addition to adhering to this Debt Management Policy, all City financings will be conducted and maintained in compliance with applicable Federal law, Oregon Revised Statutes, City Code and other regulatory requirements.

B. **Capital Financing Proposals.** Bureau Directors shall be responsible for ensuring that any capital financing proposal involving a pledge of the City's credit through the sale of securities, execution of loans or capital leases, or making of guarantees or agreements directly or indirectly pledging or lending of the City's credit shall be referred to the Debt Manager. The Debt Manager shall be responsible for analyzing the proposal, responding to the proposal, and recommending the action to be taken.

C. **Debt Planning and Administration.** The Debt Manager shall be responsible for administering the City's debt programs, including monitoring ongoing compliance with the City's Debt Management Policy.

It shall be the responsibility of the Debt Manager to coordinate the timing, process, and sale of City debt required in support of the City's Capital Improvement Plan ("CIP"). The Debt Manager shall make recommendations to the City Council as necessary in order to accomplish City financing objectives.

Bureaus (defined for purposes of this Debt Management Policy as any City bureau, agency, project or program that utilizes debt financing) are responsible for coordinating with the Debt Manager in connection with any planned or active debt financing to ensure compliance with the City's Debt Management Policy.

D. **Investor Communication.** The Debt Manager shall be the City's centralized point of contact for questions from current or prospective bondholders, bond rating agencies and credit analysts regarding City bond issues, bond disclosure and this Debt Management Policy.

E. **Periodic Review of Debt Management Policy.** At least annually, the Debt Manager shall perform a thorough review of the City's Debt Management Policy and recommend updates for City Council approval, if appropriate. The Debt Management Policy may be updated at any time, subject to City Council approval.

F. **Comprehensive Capital Planning and Financing Approach.** The City shall utilize an integrated approach to capital planning and financing and shall prepare a multi-year CIP for City Council consideration and adoption. Individual bureaus and agencies shall develop multi-year capital plans. Coordination and integration of these individual capital plans into the CIP shall reside with the City Budget Office; however, the Debt Manager shall be included in the CIP process for issues related to debt financing. The CIP shall be for the following five fiscal years and shall be updated at least annually as part of the City budget process. The CIP shall contain a comprehensive description of the sources of funds, including current revenue requirements; identify the timing of project expenditures and their impact on future operating and capital budgets; and evaluate the impact of the projects on the amount and timing of bonds to be issued, debt service requirements, outstanding debt, and debt burden. In developing the CIP, the City Budget Office shall coordinate with the Debt Manager to determine whether the planned financings conform with policy targets related to (1) the magnitude and composition of the City's indebtedness, and (2) the fiscal resources of the City to support such indebtedness during the five-year CIP horizon and through the final maturity of the proposed debt. Affordability impacts of the CIP shall be evaluated in consultation with the various Bureaus.

G. **Debt Authorization for Capital Projects.** The City shall authorize use of long-term debt only to fund capital projects and related capitalizable expenditures; long-term debt shall not be authorized to fund short-term operational obligations. No City debt shall be issued to fund capital projects unless such capital project has been included in the CIP and authorized by City Council. Inclusion in the CIP may occur as part of an action related to budget approval or budget adjustment. Such approval shall occur only after City Council has received a report of the impact of the contemplated borrowing on the CIP and/or budget and recommendations from the Debt Manager and the City Budget Office regarding the ability of the financing payments to be supported by existing or new revenues.

H. **Pay-As-You-Go Funding of Capital Outlays.** When feasible, the City shall make contributions from current resources or from outside funding sources (such as state or federal grants) to each capital project or program. The target contribution shall be equal to at least 5% of the total capital cost of a project or program.

I. **Maintenance, Replacement and Renewal.** Consistent with its philosophy of keeping its capital facilities and infrastructure systems in good repair and to maximize the capital stock's useful life, the City will strive to set aside sufficient current revenues to finance ongoing maintenance needs and to provide reserves for periodic renewal and replacement.

J. **Investment of Tax-Exempt Bond Proceeds.** The City Treasurer, in consultation with the Debt Manager, shall be responsible for investing unspent tax-exempt bond proceeds in accordance with legal requirements and City Investment Policy.

II. LIMITATIONS ON CITY INDEBTEDNESS

A. **Target Limitations on Non-Self-Supporting Unlimited Tax General Obligation Indebtedness.** The City shall, as a matter of policy, manage its finances so that the amount of direct, non-self-supporting, unlimited tax general obligation ("UTGO") debt outstanding at any time that is subject to approval by the voters does not exceed 0.75% of citywide taxable real market value. This limitation shall not apply to self-supporting UTGO debt, if any, or indebtedness as described in Section II.H below.

B. **Target Limitations on Non-Self-Supporting Limited Tax Indebtedness.** The City shall, as a matter of policy, manage its finances so that the amount of direct, non-self-supporting, limited tax indebtedness and full faith and credit capital lease obligations outstanding at any time that are not subject to approval by the voters does not exceed 1.0% of citywide taxable real market value. Furthermore, the City shall strive to limit the annual debt service requirements on these obligations to an amount not greater than 7% of annual General Fund revenues. For purposes of this calculation, General Fund revenues include all revenues actually allocated to the General Fund with the exception of general obligation bond levies, the Fire and Police Disability and Retirement Fund levy and General Fund beginning balance.

These limitations apply to debt obligations issued with a security pledge of the City's General Fund, or of the City's full faith and credit, or of legally available general funds and which are not self-supporting, or debt obligations which are paid for from General Fund monies. Also included within this limitation are any other loan agreements entered into directly by the City or secured indirectly by a pledge of the City's General Fund as described in Section II.E below. These limitations shall not apply to indebtedness as described in Section II. H below.

C. **Target Limitations on Self-Supporting Limited Tax Indebtedness.** The City shall, as a matter of policy, manage its finances so that the amount of direct, self-supporting, limited tax indebtedness outstanding at any time that is not subject to approval by the voters does not exceed 1.0% of the citywide taxable real market value.

This limitation applies to debt obligations that are paid from non-General Fund resources but issued with a security pledge of the City's General Fund, or of the City's full faith and credit, or of legally available general funds. It shall be the responsibility of the Debt Manager and the Director of the Bureau of Revenue and Financial Services to determine whether such General Fund-secured obligations are classified as self-supporting. Such determination shall be made based upon factors including, but not limited to, length of history of the payment revenue source, level of debt service coverage, availability of reserves for payment of debt, revenue volatility and classification of such debt by bond rating agencies. This limitation shall not apply to indebtedness as described in Section II.H below.

D. **Target Limitations on Capital Leases for Equipment and Furnishings.** The City may enter into capital leases to finance the acquisition of capital equipment and furnishings with estimated useful lives of less than ten years. Outstanding capital lease obligations issued to finance capital equipment and furnishings shall not exceed 0.125% of citywide taxable real market value. Repayment of these capital lease obligations shall occur over a period not to exceed the estimated useful life of the underlying asset. Bureaus are responsible for coordinating with the Debt Manager prior to execution of capital lease obligations.

E. **Limitations on General Fund Loan Guarantees and Credit Support.** As part of the City's financing activities, General Fund resources may be used to provide credit support or loan guarantees for public or private developments that meet high-priority City needs and which comply with State constitutional restrictions on lending of credit. Before such General Fund commitments are made, project managers, in conjunction with the Debt Manager and the Director of the Bureau of Revenue and Financial Services shall determine that the goals and objectives of the project justify such support, and specify limitations on the maximum amount of General Funds resources available to a project. No General Fund guarantee or credit support shall take effect until approved by City Council. General Fund loan guarantees shall also be subject to the applicable debt limitations set forth in Section II.C above.

Recognizing the limited capacity of the City's General Fund to support both ongoing operating programs and secure long-term debt obligations, use of the General Fund to secure such obligations must first be approved by the Debt Manager and the Director of the Bureau of Revenue and Financial Services. Key factors that will be considered in determining whether or not the General Fund should serve as a loan guarantee or credit support will include the following:

1. Demonstration of underlying project revenues sufficient to adequately support debt service requirements, thus limiting potential General Fund financial exposure.

2. Legal pledges of additional non-General Fund revenues or repayment sources (i.e. "double-barrel" security).

3. Use of General Fund support as a transition to a fully stand-alone credit structure, where interim use of General Fund credit support reduces borrowing costs and provides a credit history for new or hard–to-establish credits.

4. General Fund support is determined by the City Council to be in the City's overall best interest.

F. **Limitations on Non-General Fund Loan Guarantees and Credit Support.** The City may, from time-to-time, use non-General Fund resources to provide loan guarantees or credit support for projects that meet high-priority City needs. Such commitments shall be made in consultation with the Debt Manager and only after consideration of the impacts of such guarantees on existing debt and financial obligations and after assuring that the guarantee does not conflict with existing bond covenants. Prior to approval by City Council, such guarantees or credit support are subject to the approval of the Debt Manager and the Director of the Bureau of Revenue and Financial Services, and the Bureau Director responsible for the resources that are being contributed. Revenues pledged directly to debt repayment and revenues allocated toward self-supporting General Fund debt are considered separately from this Section II.F.

G. **Target Limitations on the Issuance of Revenue-Secured Debt Obligations.** The City may finance a portion of the capital needs of its revenue producing activities through the issuance of revenue-secured debt obligations. Prior to issuing revenue-secured debt obligations, Bureaus, in consultation with the Debt Manager, will develop financial plans and projections showing the feasibility of the planned financing, required rates and charges needed to support the planned financing, and the impact of the planned financing on ratepayers, property owners, Bureaus, or other affected parties. The amount of revenue-secured debt obligations issued by a Bureau will be limited by the feasibility of the overall financing plan including consideration of debt service coverage, revenue volatility, fund balances, debt reserves and future capital needs as determined by the Debt Manager.

Revenue-secured debt obligations must first be reviewed and approved by the Debt Manager and the Director of the Bureau of Revenue and Financial Services in consultation with the involved bureaus before being issued.

H. **Pension Obligation Debt.** The City may elect to fund accrued pension liabilities through the issuance of pension obligation bonds rather than funding such obligations on a pay-as-you-go basis. The principal amount of outstanding pension obligations and the debt service on such obligations shall be excluded from calculations of outstanding debt under Section II (A) (B) and (C) of this Debt Management Policy.

III. STRUCTURE AND TERM OF CITY INDEBTEDNESS

A. **Rapidity of Debt Repayment.** Generally, borrowings by the City should be of a duration that does not exceed the expected economic life of the improvement that it finances and where feasible should be shorter than the expected economic life of the assets being financed. Moreover, to the extent possible, the City should design the repayment of debt so as to recapture rapidly its credit capacity for future use. The City shall strive to repay the principal amount of its long-term general obligation debt (both voter and non-voter approved) on an issue-by-issue basis as follows: at least 20% in five years and 40% in ten years. Revenue bonds should strive for the same repayment period, but may also consider the underlying security, overall capital program needs, debt service coverage and other structuring considerations. The City may choose to structure debt repayment so as to wraparound existing obligations or to achieve other financial planning goals. Such alternative structures shall be subject to the approval of the Debt Manager and Director of the Bureau of Revenue and Financial Services, in consultation with the involved Bureaus, before being recommended to City Council.

B. **Optional Redemption.** City debt issues shall include provisions for optional redemption prior to maturity when it is cost-effective and in the City's best interests to do so. The City may issue debt without optional redemption provisions in order to achieve debt structuring goals or cost savings or when the term of the debt issue is such that an optional redemption provision is deemed unnecessary. Determination of redemption features shall be made by the Debt Manager.

C. **Use of Capitalized Interest.** The City shall use capitalized interest debt structures only in limited circumstances. Subject to review and approval of the Debt Manager and the Director of the Bureau of Revenue and Financial Services, the City may choose to utilize capitalized interest when it matches a specific repayment cash flow and is in support of a project that is deemed by City Council to be of sufficient importance to allow use of capitalized interest.

D. **Use of Variable-Rate Securities.** When appropriate, the City may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities. The decision to issue such securities must be reviewed and approved by the Debt Manager and the Director of the Bureau of Revenue and Financial Services, in consultation with the City Treasurer, before City Council is requested to approve their issuance. Prior to issuing variable rate debt, Bureaus shall, in conjunction with the Debt Manager, develop a plan to address interest rate risk associated with these instruments.

E. **Commitment of Non-Restricted Funds.** Upon recommendation from the Debt Manager and the Director of the Bureau of Revenue and Financial Services, the City may choose to identify non-restricted funds for the purpose of maintaining an internal debt reserve. Unless legally prohibited, and after consultation with the Debt Manager, funds in an internal, non-restricted debt reserve may be utilized for purposes unrelated to debt upon direction of City Council.

F. **Use of Subordinate Lien Obligations.** Creation of a subordinate lien financing structure, if appropriate, shall be based on the overall financing needs of a particular bureau, expected credit ratings, relative cost of a subordinate lien structure, and impacts on the City as determined by the Debt Manager and the Director of the Bureau of Revenue and Financial Services, in consultation with the involved Bureau. Expectations regarding subordination shall be presented to City Council for consideration prior to or at the time such bonds are being authorized.

G. **Issuance of Tax-Advantaged Debt.** The City may choose to issue taxable bonds that are eligible to receive a direct interest subsidy or that facilitate a tax credit from the federal government. The decision to issue such debt shall be based upon an analysis indicating that the post-subsidy interest cost would be lower than the interest cost of a comparable tax-exempt borrowing. The decision shall also take into account any additional risks or administrative costs associated with issuing such bonds. Tax-advantaged debt shall be subject to the same policies and conditions as tax-exempt debt, unless otherwise legally allowable, and subject to approval by the Debt Manager.

H. **Issuance of Federally Taxable Debt.** The City may issue debt that is not eligible for any federal tax exemption or other benefit for projects that do not meet federal requirements for tax-exempt or tax-advantaged debt. Decisions to issue federally taxable debt will be made by the Debt Manager after appropriate due diligence regarding project qualifications, financing costs, and other considerations of the City's Debt Management Policy. The City may also issue federally taxable debt for reasons of maintaining financing flexibility or cost efficiency if it is determined by the Debt Manager to be in the City's best interest to do so.

IV. SHORT-TERM DEBT AND INTERIM FINANCING

A. **Lines and Letters of Credit.** Where their use is determined by the Debt Manager to be prudent and advantageous to the City, City Council may authorize the Debt Manager to enter into agreements with commercial banks or other financial entities for purposes of acquiring lines or letters of credit that shall provide the City with access to credit under terms and conditions as specified in such agreements. Before entering into any such agreements, takeout financing or intended amortization for such lines or letters of credit must be planned for and determined to be feasible by the Debt Manager. Lines or letters of credit will be procured in conformance with Section VIII.C. Lines and letters of credit entered into by the City shall be in support of projects contained in the approved CIP as described in Section I.F.

B. **Bond Anticipation Notes.** Where their use is determined by the Debt Manager to be prudent and advantageous to the City, and subject to authorization and approval by City Council, the City may choose to issue Bond Anticipation Notes as a source of interim construction financing. Before issuing such notes, takeout financing for such notes must be planned for and determined to be feasible by the Debt Manager. Bond Anticipation Notes may be sold in either a competitive or negotiated sale.

C. **Tax and Revenue Anticipation Notes.** Where their use is determined by the Debt Manager to be prudent and advantageous to the City, and subject to authorization and approval by City Council, the City may choose to issue Tax and Revenue Anticipation Notes to fund internal working capital cash flow needs. Before issuing such notes, cash flow projections will be prepared by the appropriate Bureaus and determined to be feasible by the Debt Manager. Tax and Revenue Anticipation Notes may be sold in either a competitive or negotiated sale.

D. **Commercial Paper.** The City may choose to issue tax-exempt or taxable commercial paper as a source of interim construction financing for projects contained in the City's approved CIP only after the Debt Manager, in consultation with the City Treasurer, determines that such a financing represents the least cost interim financing option for the City. Furthermore, commercial paper shall not be issued for City capital programs unless such program is of sufficient economic size as determined by the Debt Manager. A report recommending the issuance of commercial paper must first be approved by the Director of the Bureau of Revenue and Financial Services before recommendations are made to City Council authorizing the establishment of such a program.

V. IMPROVEMENT DISTRICT AND ASSESSMENT CONTRACT FINANCING

A. **Financing Policies.** The policies guiding the City's improvement district and assessment contract financing program shall be guided by City Council Resolution No. 34847, as amended.

B. **Interest Rates on Local Improvement District Assessment Contracts.** The interest rate on local improvement district assessment contracts funded from the proceeds of assessment bonds shall be equal to the effective interest rate paid on the bonds sold to finance such contracts, plus an additional percentage “bump rate” sufficient to cover administrative costs, cash flow requirements and reserve requirements. The bump rate shall be adjusted periodically based upon the historical improvement assessment contract payment history and consultation among the Auditor's Office, the Debt Manager, and the City Treasurer. The bump rate charged on assessment contracts with governmental bodies and other public entities may be lower than that of private property owners due to a lower risk of payment default.

C. **Interim Assessment Contract Interest Rates.** The interim assessment contract interest rate is the interest rate set on contracts that precede the sale of assessment bonds. This rate shall be set at a level deemed reasonable and prudent by the Debt Manager and the Auditor's Office to insure that funds collected through assessment contract payments are sufficient to meet that portion of future debt service requirements on improvement assessment bonds attributable to such contracts.

D. **Commitment to Self-Supporting Improvement District Financings.** Consistent with the concept of improvement district and assessment contract financing, all of the City's improvement assessment indebtedness shall be self-supporting. Prior to the issuance of improvement assessment bonds, the Auditor's Office shall review projected cash flows which incorporate scheduled assessment contract payments, and projections of prepayments, delinquencies, and non-payments with the Debt Manager to ensure that the proposed bonds meet the City's self-supporting requirement. At least annually, the Debt Manager shall review the adequacy of amounts in the Reserve Subfund of the Bancroft Bond Interest and Sinking Fund to ensure the continued self-sufficiency of the improvement district and assessment contract program.

E. **Exception to Limits on Debt Structure.** Improvement district and assessment contract financings shall typically be structured in a manner aligned with the structure and prepayment provisions of the assessment contracts that provide repayment revenues for the financing. Therefore, improvement district and assessment contract financings may be structured outside the principal repayment targets identified in Section III.A.

VI. URBAN RENEWAL FINANCING

A. **Financing Policies.** Recognizing the uncertainty created by Oregon's property tax system, assessed value growth, and Oregon's initiative environment, the City will adopt a conservative approach under these policies when issuing urban renewal bonds, notes and interim financing. The Debt Manager, in consultation with the Portland Development Commission, shall develop planning standards to guide capital project planning and financing in urban renewal areas ("URAs"). Capital project planning may reflect collaboration between PDC and Bureaus who receive capital or financial resources through PDC.

B. **Commitment to Self-Supporting Tax Increment Financings.** The City shall strive to maintain its tax increment obligations as self-supporting indebtedness. Prior to the issuance of tax increment bonds or interim financing, the Debt Manager, in consultation with the Portland Development Commission, shall review historical and reasonably projected tax increment collections to ensure that the proposed bonds or interim financing will meet the City's self-supporting requirement. No long-term debt shall be issued until the district has a five-year history of tax increment collections which demonstrate that the debt can be supported.

C. **Limitation on Short-Term Indebtedness.** The City shall limit the outstanding short-term indebtedness incurred on behalf of an URA to an amount that, when converted to long-term debt using borrowing assumptions that are reasonable and in conformance with this Debt Management Policy, is fully self-supporting either from existing available tax increment revenues or from future available tax increment revenues that have reasonably been projected by the Debt Manager to be sufficient to fully support the outstanding short-term debt. Available tax increment revenues shall mean those tax increment revenues remaining after the payment of any outstanding long-term bonded indebtedness of the URA.

D. **Tax Increment Revenue Projections.** In projecting future tax increment revenues, the Debt Manager may:

1. Determine current borrowing capacity by projecting tax increment revenues for a five-year period. Projections will include analysis of historical assessed value and tax increment revenue collections, will use reasonable assumptions regarding assessed value growth and will account for legal constraints that may limit future assessed value growth. Short-term indebtedness may be incurred in amounts which are projected to be fully self-supporting by the projected available tax increment revenues available in the fifth year of the forecast.

2. Consider the value of an existing development agreement or similar contractual obligation that provides the City with reasonable assurance that the timing and assessed value of new taxable, non-abated development will be sufficient to support indebtedness in excess of that which can be paid from existing available tax increment revenues. The extent to which the Debt Manager will support additional indebtedness will be based on the particular nature of the contractual obligations of the private developers; speculative development shall not be included.

Exceptions to these limitations may be approved by a specific action of the City Council. If City Council deems a project to be sufficiently important to allow borrowing in a URA in amounts in excess of the limits contained in this section, it may do so by acknowledging that tax increment revenues are not reasonably projected to be sufficient to support the indebtedness and the City's General Fund may be at an increased risk for the ultimate repayment of the indebtedness. In this circumstance, the Debt Manager may further recommend that a loss reserve be included as a contingent expenditure in the General Fund Financial Forecast. Any amounts included as contingent General Fund expenditures for this purpose shall be included in calculations of debt limitations set forth in Section II.B above.

E. **Debt Service Coverage Standards Based on Type of Urban Renewal District.** Because each type of urban renewal district carries a different risk profile, the Debt Manager shall adopt appropriate debt service coverage planning standards for each type of district, including Option 3 districts, standard rate plans (approved between December 6, 1996 and October 6, 2001), reduced rate plans, and other types of districts as may be created through the Oregon legislative process. These standards may consider the availability of the urban renewal Special Levy (for Option 3 districts), non-tax increment sources of debt repayment, diversity of property ownership, mix of property types, impacts of revenue sharing to overlapping taxing jurisdictions or other credit factors as determined by the Debt Manager.

VII. CONDUIT FINANCINGS

The City may sponsor conduit financings for those activities (i.e., economic development, housing, health facilities, etc.) that have a general public purpose and are consistent with the City's overall service and policy objectives as determined by the Portland Development Commission, Portland Housing Bureau or other appropriate bureaus. All conduit financings must insulate the City completely from any direct credit risk or exposure and must first be approved by the Debt Manager and the Director of the Bureau of Revenue and Financial Services before being submitted to City Council for authorization. The obligated borrower shall be responsible for paying all bond sale costs associated with the financing, including any debt management fee imposed by the City. The obligated borrower shall also be responsible for funding of any debt reserve requirement, if applicable.

Conduit financings shall either:

1. Carry a rating not lower than “A3” or “A-” by Moody’s Investors Service and/or Standard & Poor’s Corporation, respectively. Exceptions to this requirement may only be made by the Debt Manager and the Director of the Bureau of Revenue and Financial Services.

2. Be sold via a private sale only to ‘accredited investors” as defined in 15 United States Code Section 77b (15).

The obligated borrower in a conduit financing shall be responsible for complying with all arbitrage rebate requirements associated with the bonds and shall, prior to the closing of the bonds, enter into a contract for rebate services with a firm recognized as having expertise in performing arbitrage rebate calculations for tax-exempt or tax-advantaged bonds.

Conduit financings are additionally subject to review and administration as described in City Code Chapter 5.72.

VIII. SELECTION OF FINANCE CONSULTANTS AND SERVICE PROVIDERS

The City's Debt Manager shall be responsible for establishing a solicitation and selection process for securing professional services that are required to develop and implement the City's debt program.

Goals of the solicitation and selection process shall include encouraging participation from qualified service providers, both local and national, and securing services at competitive prices. The solicitation and selection process for such services will comply with City Code requirements for such services, including procurement requirements for Professional, Technical, and Expert Services, if appropriate.

A. **Bond Counsel.** As part of its responsibility to oversee and coordinate the marketing of all City indebtedness, the City Attorney, upon consultation with the Debt Manager, shall make recommendations to the City Council regarding the selection of one or more Bond Counsel firms to be engaged and the duration of the engagement. Bond Counsel may be selected for an individual financing, for a series of financings or for a specified period of time. The City Council shall make such selection, taking into consideration these recommendations.

B. **Underwriters.** The Debt Manager shall solicit proposals for underwriting services for all long-term debt issued in a negotiated or private placement sale mode. The solicitation process shall include formation of a review committee selected by the Debt Manager to evaluate written proposals and, if deemed necessary, conduct oral interviews. The selection of underwriters may be for an individual or series of financings or for a specified period of time. The Debt Manager, in consultation with the Director of the Bureau of Revenue and Financial Services shall make such selections taking into consideration the recommendations of the review committee.

C. **Commercial Banks.** The Debt Manager, in consultation with the City Treasurer, may solicit proposals from commercial banks to provide lines of credit, letters of credit, direct loans and direct bank placements as needed. Selection of such providers will be based upon the proposed financial terms deemed most advantageous to the City, including, but not limited to, lowest cost.

D. **Financial Advisor.** The Debt Manager, upon consultation of a review committee including issuing Bureau staff as appropriate or otherwise required, shall make recommendations to the City Council regarding the selection of financial advisors to be engaged and the duration of such engagement. The time period for engagement may relate to an individual or a series of financings, or for a specified period of time. The City Council shall make such selections taking into consideration the recommendations of the review committee. Only independent financial advisors (defined as firms that are not engaged in the buying and selling of municipal securities) shall be retained by the City unless the Debt Manager determines that, due to the specialized nature of a proposed financing, the City will be better represented by a non-independent financial advisor. A financial advisor under contract with the City will not be eligible to serve as an underwriter for City bond issues during the term of the contract and for the successive two years. Any firm acting as financial advisor to the City regarding debt issuance must be a registered Municipal Advisor (as defined by the Municipal Securities Rulemaking Board) and must remain in compliance with all securities regulations.

E. **Other Service Providers.** The Debt Manager, in consultation with the City Treasurer, shall periodically solicit for providers of other services necessary to carry out the debt issuance activities of the City (paying agents, escrow agents, verification agents, feasibility consultants, rebate consultants, trustees, etc.). The Debt Manager in selecting such additional service providers shall evaluate the cost and perceived quality of service of the proposed service provider.

IX. METHOD OF SALE

A. **Presumption of Competitive Sale.** The City, as a matter of policy, shall issue its long-term debt obligations through a competitive sale unless the Debt Manager determines that such a sale method is unlikely to produce the best results or is otherwise not in the best interests of the City. In such instances, or when the Debt Manager deems the bids received through a competitive sale process as unsatisfactory or does not receive bids, the City may enter into negotiation with an underwriter (or syndicate of underwriters) for sale of the securities.

B. **Negotiated Sale.** When determined appropriate by the Debt Manager, the City may elect to sell its debt obligations through a negotiated sale. Such determination may be made on an issue by issue basis, for a series of issues, or for part or all of a specific financing program. Selection of the underwriting team shall be made pursuant to selection procedures set forth in this Debt Management Policy, consistent with City Code, and as may be adjusted by the Debt Manager. It is the City's policy that negotiated sale underwriters receive fair and reasonable compensation for actual expenses incurred as part of the bond transaction, but underwriters will not be compensated for travel expenses unless such travel is specifically requested by the City.

The Debt Manager will be responsible for monitoring pricing results to confirm that bond price behavior after the pricing date is consistent with reasonable market expectations.

C. **Private Placement.** When determined appropriate by the Debt Manager and approved by the Director of the Bureau of Revenue and Financial Services, the City may elect to sell its debt obligations through a direct bank loan, private placement or limited public offering. Selection of a placement agent shall be made pursuant to selection procedures developed by the Debt Manager, consistent with Section VIII.C of this Debt Management Policy and with City Code, as applicable.

X. REFUNDING OF CITY INDEBTEDNESS

A. **Monitoring of Refunding Opportunities.** The Debt Manager shall be responsible for monitoring the interest rates and optional redemption provisions of the City's outstanding debt in order to identify potential current or advance refunding opportunities.

B. **Debt Service Savings--Advance Refundings.** The City may issue advance refunding bonds (as defined for federal tax law purposes) when advantageous, legally permissible and prudent, and when net present value savings equals or exceeds 5 percent, calculated in accordance with Oregon Administrative Rules on Advance Refundings. In addition, issuance of advance refunding bonds that generate at least 3 percent, but less than 5 percent, net present value debt service savings may be allowed with the approval of the Debt Manager, in consultation with the Director of the Bureau of Revenue and Financial Services. Such approval, if given, shall be based upon an opportunity cost analysis of the net present value savings benefits of executing the advance refunding versus waiting for a possible future decline in interest rates or possible increase in the available escrow account yield.

C. **Debt Service Savings--Current Refundings.** The City may issue current refunding bonds (as defined for federal tax law purposes) when advantageous, legally permissible and prudent, and when net present value savings equal or exceed $100,000.

D. **<u>Restructuring of Debt.</u>** The City may choose to refund outstanding indebtedness when existing bond covenants or other financial structures impinge on prudent and sound financial management. Savings requirements for current or advance refundings undertaken to restructure debt may be waived by the Debt Manager and the Director of the Bureau of Revenue and Financial Services upon a finding that such a restructuring is in the City's overall best financial interests.

E. **<u>Open Market Purchase of City Securities.</u>** The City may choose to defease its outstanding indebtedness through purchases of its securities on the open market when market conditions make such an option financially feasible. The Debt Manager and the City Treasurer shall be responsible for developing procedures for executing open market purchases and the savings objectives to be achieved by undertaking such actions.

XI. USE OF CREDIT ENHANCEMENT

The City may use credit enhancement (letters of credit, bond insurance, surety bonds, etc.) when such credit enhancement proves cost-effective or is otherwise beneficial to a financing transaction. Selection of credit enhancement providers shall be subject to a competitive bid process developed by the Debt Manager. Credit enhancement may be used to improve or establish a credit rating on a City debt obligation even if such credit enhancement is not cost effective if, in the opinion of the Debt Manager, the use of such credit enhancement otherwise facilitates the City's debt financing goals and objectives.

XII. CREDIT RATINGS

A. **<u>Rating Agency Relationships.</u>** The Debt Manager shall be responsible for maintaining relationships with the rating agencies that currently assign ratings to the City's various debt obligations. This effort shall include providing periodic updates on the City's general financial condition along with coordinating meetings and presentations in conjunction with a new debt issuance.

B. **<u>Use of Rating Agencies.</u>** The Debt Manager shall be responsible for determining whether or not a rating shall be requested on a particular financing, and which of the major rating agencies shall be asked to provide such a rating.

C. **<u>Minimum Long-Term Rating Requirements.</u>** The City's minimum rating requirement for its direct, long-term, debt obligations is a rating not lower than “A3” by Moody’s Investors Service or “A-” by Standard & Poor’s Corporation. If a debt obligation cannot meet this requirement based on its underlying credit strength, then credit enhancement shall be sought to ensure that the minimum rating is achieved. If credit enhancement is unavailable or is determined by the Debt Manager to be disadvantageous to the City, then the obligations may be issued without a rating, however, bonds that are rated below A3/A- shall be sold via a private sale only to ‘accredited investors” as described in City Code Section 5.72.080, unless such requirement is waived by the Debt Manager and the Director of the Bureau of Revenue and Financial Services.

XIII. REBATE COMPLIANCE AND OTHER POST-ISSUANCE RESPONSIBILITIES

The Debt Manager shall establish and maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code (see City's Debt Tax Compliance Procedures FIN 2.12.01 at: http://www.portlandoregon.gov/brfs/article/532718). This effort shall include tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the City's outstanding tax-exempt or tax-advantaged debt issues.

It shall be the primary responsibility of debt-issuing Bureaus to ensure that appropriate accounting records of tax-exempt and tax-advantaged bond expenditures are maintained for a period of time that allows the City to comply with its arbitrage rebate requirements. The Debt Manager shall advise Bureaus on appropriate record-retention timeframes based upon current legal requirements and industry best practices. Bureaus are further responsible to promptly notify the Debt Manager of any concerns surrounding the appropriate use of tax-exempt and tax-advantaged bond proceeds or facilities financed with tax-exempt or tax-advantaged bonds. In particular, it is the responsibility of the debt-issuing Bureau to notify the Debt Manager of any planned or potential sale of or change in use of assets financed with tax-exempt or tax-advantaged bonds, so long as the bonds are currently outstanding.

Additionally, general financial reporting and certification requirements embodied in bond covenants shall be monitored by the appropriate debt-issuing Bureau and the Debt Manager to ensure that all covenants are complied with. Debt-issuing Bureaus will be responsible for providing relevant data and information to the Debt Manager to assure ongoing compliance.

XIV. DISCLOSURE

A. **Primary Market Disclosure.** The Debt Manager shall be responsible for establishing a process for the review, approval and publication of official primary market disclosure information, including review by debt-issuing Bureau staff and the City Council as appropriate. Such process shall be periodically reviewed to ensure that the City is complying with legal requirements and following accepted best practices with respect to primary market disclosure.

B. **Continuing Disclosure.** The Debt Manager shall be responsible for preparing and providing required continuing disclosure information to the Electronic Municipal Market Access ("EMMA") or any such successor organization designed to assist issuers in maintaining compliance with disclosure standards promulgated by state and national regulatory bodies. The Debt Manager shall be responsible for establishing and maintaining a process to guide continuing disclosure actions and responsibilities. Additionally, the Debt Manager may determine that it is in the City's best interest to prepare and provide information beyond the minimum continuing disclosure requirements, and may prepare and provide such information from time-to-time.

XV. DERIVATIVE PRODUCTS

The City may choose to enter into contracts and financing agreements involving interest rate swaps or other forms of debt bearing synthetically determined interest rates as authorized under Oregon statutes. The use of such products shall conform to the City's Interest Rate Exchange Agreement Policy.