

FIN-2.12 - Debt Management Policy

DEBT MANAGEMENT POLICY

Binding City Policy

BCP-FIN-2.12

Policy Introduction

The City's Debt Management Policy sets forth the responsibilities and authorities of the City Council, the Debt Manager, the City Treasurer, and the Director of the Bureau of Revenue and Financial Services (BRFS Director), who serves as the City's Chief Financial Officer (CFO), in managing the City's debt program.

Responsibility

The Debt Manager shall be responsible for the implementation of this policy. Any amendments to this policy must be approved by the City Council after seeking the advice of the Director of the Bureau of Revenue and Financial Services, City Treasurer, and the Debt Manager.

History

Resolution No. 35451, adopted by City Council October 4, 1995.

Replaced by Ordinance No. 181829, passed by City Council May 14, 2008 and effective July 1, 2008.

Amended by Resolution No. 37086, adopted by City Council August 6, 2014.

Amended by Resolution No. 37475, adopted by City Council, January 15, 2020.

Definitions and Terms

Within the Debt Management Policy, certain capitalized terms are defined below.

Bureau – means any City of Portland bureau, agency, office, project or program that is responsible for City infrastructure projects and that may finance related capital expenditures with City-issued debt

BRFS Director/CFO – Director of the Bureau of Revenue and Financial Services, serving as the City's Chief Financial Officer

Capitalizable expenditure – Land and other assets with a useful life greater than 1 year

CIP – Capital Improvement Plan

Full Faith and Credit Obligation – means short-term and long-term debt issued pursuant to ORS 287A.150 and 287A.315 and payable from the City's legally available funds

Limited Tax General Obligation Bond – See "Full Faith and Credit Obligation" above.

URA – Urban Renewal Area

Unlimited Tax General Obligation Bond – means voter-approved short-term and long-term debt issued pursuant to ORS 287A.050

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 its use of debt financing. This Debt Management Policy is one of the City's Comprehensive Financial Management Policies that guide City operations. In addition to this Debt Management Policy, all City financings shall be conducted and maintained in compliance with applicable Federal law, Oregon Revised Statutes, City Code and other regulatory requirements.
- B. Financing Proposals.** Bureau Directors shall be responsible for ensuring that any financing proposal involving a pledge of the City's credit through the sale of securities, execution of loans, leases, credit facility agreements, installment purchase agreements, other alternative financing mechanisms, or making of guarantees or agreements that directly or indirectly pledge or lend the City's credit (each of which are considered City debt or City financing), 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 is responsible for administering the City's debt programs, including the sale of City debt (e.g. timing, process, structure, etc..) and monitoring ongoing federal and state regulatory compliance. The Debt Manager shall make recommendations to the City Council as necessary to accomplish City financing objectives within the boundaries of the Debt Management Policy.
- Bureaus 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 and other rules and regulations.
- D. Investor Communication.** The Debt Manager is the City's centralized point of contact for inquiries from current or prospective bondholders, bond rating agencies and credit analysts regarding City bond issues, bond disclosure and this Debt Management Policy.
- E. Public Policy Communication.** In coordination with the Office of Government Relations, the Debt Manager and the CFO are the primary contacts to communicate and advance the City's federal- and state-level policy objectives relating to the municipal bond market, including both federal and state tax-exemption and other subsidy programs, restoration of tax-exempt advance refunding, federal regulatory environment, and other legislation that would affect the City's ability and cost of borrowing in the capital markets.
- F. Periodic Review of Debt Management Policy.** At least annually, the Debt Manager shall review the City's Debt Management Policy and, if needed based on market and regulatory developments, recommend updates for City Council approval. The Debt Management Policy may be updated at any time, subject to City Council approval. The Debt Management Policy is must be reviewed and amended by City Council at least every three years.

- G. Comprehensive Capital Planning and Financing Approach.** Individual bureaus shall develop multi-year capital plans (see [FIN 2.03 Financial Planning](#)). Coordination and integration of these individual capital plans into the citywide multi-year Capital Improvement Plan (“CIP”) for City Council consideration and adoption resides with the City Budget Office; the Debt Manager shall be included in the CIP process for issues related to debt financing. The CIP shall span the following five fiscal years and shall be updated annually as part of the City’s budget process.

The CIP shall (1) contain a comprehensive description of project funding sources (cash vs. debt) and pre-identified revenues for debt repayment; (2) identify the timing of project expenditures and their impact on future operating and capital budgets; and (3) evaluate the impact of the projects on the amount and timing of bonds to be issued, aggregate City 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 required 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.

- H. Debt Authorization for Capital Projects.** The City authorizes use of long-term debt only to fund the City’s capital projects, related capitalizable expenditures (see [FIN 6.11 Capital Assets | Accounting Administrative Rules](#)) and financing costs. Long-term debt may also be issued to finance the City’s portion of multijurisdictional capital projects that do not reside on the City’s balance sheet.

Long-term debt may not be issued to fund operational deficiencies of operating resources not part of a capital project’s financing plan.

Debt cannot 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, with approval occurring only after City Council has received (1) a report of the impact of the contemplated borrowing on the CIP and/or budget and (2) 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.

- I. Cash “Pay-As-You-Go” Funding of Capital Outlays.** For debt-financed projects, borrowing bureau(s) should make a cash contribution as a source of funds from either current resources or from outside cash funding sources (e.g. state or federal grants). The target cash contribution shall be equal to 5% of the total cost of a given project, however a minimum cash contribution must be made to cover project costs which are non-capitalizable and/or ineligible under the federal tax code on tax-exempt bonds.

Accordingly, prior to a debt-financed project’s approval in the budget process, the borrowing bureau will provide the Debt Manager a schedule of project sources and uses of funds, which details the required cash-funding commitment.

- J. **Maintenance, Replacement and Renewal.** Consistent with its philosophy of keeping its capital assets 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 asset management needs, including replacement reserves (see [FIN 2.03 Financial Planning](#)).
- K. **Investment of Bond Proceeds.** The City Treasurer, in consultation with the Debt Manager, is responsible for investing unspent bond proceeds in accordance with legal requirements and the City's Investment Policy (see [FIN 2.14 Investment Policy](#)).

II. LIMITATIONS ON CITY INDEBTEDNESS

- A. **Target Limitations on Unlimited Tax General Obligation Indebtedness Paid from Property Taxes.** Direct, non-self-supporting, unlimited tax general obligation ("UTGO") debt is targeted to be less than 0.75% of the taxable real market value of the City at the time of issuance. This target limitation does 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 amount of direct, non-self-supporting, limited tax indebtedness (i.e. "Full Faith and Credit Obligations") outstanding at any time is targeted to be less than 1.0% of the taxable real market value of the City at the time of issuance.

The City generally limits aggregate Full Faith and Credit Obligation annual debt service requirements in any year to 7% of annual General Fund revenues in that respective year. The authorization of issuing additional Full Faith and Credit Obligation indebtedness is contingent upon projected aggregate Full Faith and Credit Obligation debt service remaining less than 7% of the future projected General Fund revenues in any respective future year, taking into account the additional debt service from a contemplated borrowing. When calculating this limitation, General Fund revenues exclude general obligation bond levies, the Fire and Police Disability and Retirement Fund levy and General Fund beginning balance.

The above limitations apply to debt obligations issued with a security pledge of the City's legally available General Fund resources, or of the City's full faith and credit, and which are not self-supporting, or debt obligations which are paid for from legally available General Fund resources. 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 legally available General Fund resources as described in **Section II.E** below. These above limitations shall not apply to indebtedness as described in **Section II. H** below.

- C. **Target Limitations on Self-Supporting Limited Tax Indebtedness.** The City manages 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 taxable real market value of the City.

This limitation applies to debt obligations that are paid from non-General Fund resources but are secured by the City's legally available General Fund resources, or of the City's full faith and credit. It shall be the responsibility of the Debt Manager and the BRFS Director/CFO 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 repayment 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 Leases for Equipment and Furnishings. The City may enter into lease contracts, lease purchase agreements or other alternative financing mechanisms to finance the acquisition of capital equipment and furnishings. Outstanding lease obligations, lease purchase agreements or other alternative financing mechanisms issued to finance capital equipment and furnishings shall not exceed 0.125% of the taxable real market value of the City. Repayment of these 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 such new obligations, and/or modifications to such existing obligations, and/or disposition of the underlying asset as described in **Section VIII.B**.

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 development projects 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 BRFS Director/CFO, 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 may take effect until approved by City Council. General Fund loan guarantees are also subject to and included within the applicable debt limitations set forth in **Sections II.B** and **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 BRFS Director/CFO. Key factors that will be considered in determining whether or not the General Fund should provide 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, the BRFS Director/CFO, 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 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, City bureaus, and 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 BRFS Director/CFO in consultation with the involved bureaus before being issued.

- H. Pension Obligation Debt.** Long-term debt may, on a case-by-case basis and contingent upon appropriate market conditions, be used to fund accrued pension liabilities through the issuance of pension obligation bonds. 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.** Borrowings of the City should be of a duration that does not exceed, and should generally be shorter than, the expected economic useful life of the assets being financed. Moreover, to the extent possible, the City should structure the repayment of debt to rapidly recapture its credit capacity for future use.

The City shall strive to repay the principal amount of its long-term general obligation debt and limited tax/full faith and credit obligations (both voter and non-voter approved) on an issue-by-issue basis as follows: 15-20% in five years and 35-40% in ten years. Revenue bonds should strive for the same repayment periods, 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 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 BRFS Director/CFO, in consultation with the involved Bureaus, before being recommended to City Council.

- B. Optional Redemption.** City debt issues include provisions for optional redemption prior to maturity when cost-effective. 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 may use capitalized interest debt structures only in limited circumstances. Subject to review and approval of the Debt Manager and the BRFS Director/CFO, 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 to be of sufficient importance to allow use of capitalized interest.
- D. Use of Variable-Rate Securities.** 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 BRFS Director/CFO before City Council is requested to approve their issuance. Prior to issuing variable rate debt, planning procedures to address interest rate risk associated with these instruments must be in place.
- E. Commitment of Non-Restricted Funds as Debt Service Reserve.** Upon recommendation from the Debt Manager, the Controller, and the BRFS Director/CFO, the City may choose to identify non-restricted funds for the purpose of maintaining an internal debt service reserve. Unless legally prohibited, and after consultation with the Debt Manager and the Controller, 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 BRFS Director/CFO, in consultation with the involved Bureau. Recommendations regarding a newly created subordinate lien must be presented to City Council for consideration prior to or at the time such bonds are being authorized.
- G. Issuance of Direct Subsidy, Tax Credit and Other 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. This type of debt is not currently authorized by the federal tax laws but could be re-authorized in the future. The decision to issue such debt shall be based upon an analysis indicating that the after-subsidy interest cost would be lower than the interest cost of a comparable tax-exempt borrowing. The decision shall also consider any additional risks or administrative costs associated with issuing such bonds. Tax-advantaged debt are 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 federally taxable debt for projects that do not meet federal requirements for tax-exemption 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 purposes of advance-refunding existing bonds, subject to the analysis and approval by the Debt Manager and BRFS Director/CFO.

IV. SELECTION OF FINANCE CONSULTANTS AND SERVICE PROVIDERS

The Debt Manager is 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 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 and Disclosure Counsels.** As part of its responsibility to oversee legal documentation and offering document preparation 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 and Disclosure Counsel firms to be engaged, and the duration of the engagement. Bond Counsel and Disclosure Counsel may be selected for an individual financing, a series of financings or a specified period of time. The City Council shall make such selection, taking into consideration the City Attorney's recommendation.
- B. **Underwriters.** The Debt Manager will solicit proposals for underwriting services for all debt issued in a negotiated public sale or limited offering. 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 BRFS Director/CFO, 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 bank placements, and other credit facilities, 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 interest cost, prepayment flexibility and other debt covenants.
- D. **Financial Advisor.** The Debt Manager will periodically solicit proposals for financial advisory services. 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. 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 specific circumstances, the City will be better represented by a non-independent financial advisor. A non-independent 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.

V. METHOD OF SALE

- A. **Competitive Sale.** The City generally issues 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, achieve a specific financing's goals, or is otherwise not in the best interests of the City.
- 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. 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 BRFS Director/CFO, 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 IV.C** of this Debt Management Policy and with City Code, as applicable.

VI. REFUNDING OF CITY INDEBTEDNESS

- A. **Refunding and Restructuring of Debt.** The City may issue current refunding bonds (as defined for federal tax law purposes) to achieve debt service savings.

Upon approval by the Debt Manager and the BRFS Director/CFO, the City may also choose to refund outstanding indebtedness solely to modify onerous debt obligation covenants and legal provisions that impinge upon the City's best interest.

- B. **Monitoring of Refunding Opportunities.** The Debt Manager is responsible for monitoring the interest rates and optional redemption provisions of the City's outstanding debt to identify potential current or advance refunding opportunities.
- C. **Debt Service Savings of Advance Refundings.** Changes to federal tax law in 2017 eliminated the City's ability to issue tax-exempt advance refunding bonds. Taxable advance refunding bonds are still permitted. The City may issue advance refunding bonds on a taxable basis when advantageous, legally permissible and prudent.

As a general rule, the City will consider advance refunding transactions and alternative refunding methods (e.g. forward delivery bonds) that result in aggregate net present value savings of 5 percent of refunding bond proceeds or greater. Issuance of advance refunding bonds that generate less than 5 percent net present value savings may be allowed with the approval of the Debt Manager in consultation with the BRFS Director/CFO.

Advance refundings will be evaluated on a maturity-by-maturity basis with the following criteria: (1) net present value savings equals or exceeds desired savings thresholds (taking into account the refunded bond's coupon and number of years to maturity relative to its call date), (2) refunding escrow negative arbitrage is less than net present value savings, and (3) the proposed refunding's "breakeven rate shift" vs. a tax-exempt current refunding is considered reasonable. For these tests, the Debt Manager shall determine present value percent savings calculations and breakeven rate shift reasonableness based on prevailing industry practices. For purposes of the latter, the "breakeven rate shift" for a refunding candidate is defined as the amount today's tax-exempt interest rates can increase between the proposed advance refunding date and the tax-exempt current refunding date to result in net present value savings equivalent to the proposed advance refunding.

- D. **Open Market Purchase of City Debt Obligations.** The City may choose to defease its outstanding indebtedness through purchases of its own debt 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.

VII. PRIMARY MARKET DISCLOSURE

In general, the City will utilize services of Disclosure Counsel to assist in the preparation and development of primary market disclosure information. However, the Debt Manager is responsible for establishing a process for the review, approval and publication of official primary market disclosure information, including review by the debt-issuing Bureau's key staff, the BRFS Director/CFO, and City Council. 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.

VIII. POST-ISSUANCE COMPLIANCE

- A. **Arbitrage Rebate.** The Debt Manager has established and will continue to maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code (see [FIN 2.12.01 Debt Tax Compliance Procedures](#)). 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 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, including producing records for any IRS audits. The Debt Manager shall advise Bureaus on appropriate record-retention timeframes based upon current legal requirements and industry best practices.

- B. **Change in Governmental Use.** Bureaus are responsible for promptly notifying the Debt Manager of any concerns surrounding the appropriate use of tax-exempt and tax-advantaged bond proceeds or facilities, equipment or furnishings 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 or disposition of assets financed with tax-exempt or tax-advantaged bonds, so long as the bonds are currently outstanding. Planned changes in the occupancy of tax-exempt financed facilities and real property must be approved by the Debt Manager.
- C. **Covenant Monitoring.** Additionally, general financial reporting and certification requirements embodied in bond covenants are to be monitored by the appropriate Bureau and the Debt Manager to ensure that all covenants are complied with. Bureaus will be responsible for providing relevant data and information to the Debt Manager to assure ongoing compliance.
- D. **Continuing Disclosure.** The Debt Manager is 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 is 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.

IX. CREDIT RATINGS

- A. **Rating Agency Relationships.** The Debt Manager shall be responsible for managing relationships and maintaining communication with the credit rating agencies. This effort includes providing periodic updates on the City's general financial condition along with coordinating meetings and presentations in conjunction with a new debt issuance.

- B. **Use of Rating Agencies.** The Debt Manager determines whether a rating shall be requested on a particular financing, and which credit rating agencies shall be asked to provide such a rating.
- C. **Minimum Long-Term Debt Rating Requirements.** 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 S&P Global Ratings. 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 BRFS Director/CFO.

X. **SHORT-TERM DEBT AND INTERIM FINANCING**

- A. **Credit Facilities.** 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 credit facility agreements, including but not limited to lines and letters of credit, with commercial banks or other financial entities for the purpose of providing 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 the credit facility must be planned for and determined to be feasible by the Debt Manager in coordination with the City Budget Office and debt issuing-Bureau.
- B. **Bond Anticipation Notes.** When determined 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 financing. Before issuing such notes, takeout financing for such notes must be planned for and determined to be feasible by the Debt Manager in coordination with the City Budget Office and debt-issuing Bureau. Bond Anticipation Notes may be sold in either a competitive or negotiated sale.
- C. **Tax and/or Revenue Anticipation Notes.** When determined 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/or Revenue Anticipation Notes that mature within thirteen months of issuance, if issued on a federally tax-exempt basis, 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.
- 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 lowest 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 BRFS Director/CFO before recommendations are made to City Council authorizing the establishment of such a program.

XI. 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 Assessment Contracts.** Assessment contracts are created to secure limited tax improvement (LTIB) bonds which finance improvement projects, including local improvement districts, system development charges and sidewalk improvements. The interest rate on these assessment contracts must be equal to the effective interest rate paid on the LTIB bonds sold to finance such contracts, plus an additional percentage “bump rate” sufficient to cover administrative costs, delinquencies, cash flow requirements and reserve requirements. The bump rate may be adjusted periodically based upon the historical improvement assessment contract payment history and consultation among the Revenue Division’s Assessment Finance & Foreclosures (AFF) team, the Debt Manager, and the City Treasurer. If the LTIB bonds are issued on a tax-exempt basis, the bump rate on the related assessment contracts is limited by current federal tax law to no more than 1.5% more than the arbitrage yield on the LTIB bonds.
- C. Interim Assessment Contract Interest Rates.** The interim assessment contract interest rate is the interest rate set on contracts that precede the sale of LTIB bonds. This interim rate shall be set at a level deemed reasonable and prudent by the Debt Manager and the BRFS Director/CFO to ensure that funds collected through assessment contract payments are sufficient to meet that portion of future debt service requirements on LTIB 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 is considered self-supporting.

Prior to the issuance of LTIB bonds, the Revenue Division 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.

To ensure the continued self-sufficiency of the improvement district and assessment contract program, the Debt Manager shall annually review the on-going compliance of the Reserve Subfund of the Bancroft Bond Interest and Sinking Fund to the reserve policy established for that specific reserve fund.

- E. Exception to Limits on Debt Structure.** Improvement district and assessment contract financings structures are aligned with the structure and prepayment provisions of the underlying 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.**

XII. 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 Prosper Portland (“Prosper”), develops capital project planning and financing in urban renewal areas (“URAs”). Capital project planning may reflect collaboration between Prosper and Bureaus who receive capital or financial resources through Prosper.
- B. **Commitment to Self-Supporting Tax Increment Financings.** The City strives to maintain its tax increment obligations as self-supporting indebtedness. Prior to the issuance of urban renewal bonds or interim financing, the Debt Manager, in consultation with Prosper, shall review historical and reasonably projected tax increment revenue collections to ensure that the proposed bonds or interim financing will meet the City's self-supporting requirement. Generally, no long-term debt may be issued until an URA has a five-year history of tax increment revenue collections which demonstrate that the debt can be supported.
- C. **Limitation on Short-Term Indebtedness.** The City limits the outstanding short-term indebtedness incurred on behalf of an URA to an amount that, (1) when converted to long-term debt using borrowing assumptions that are reasonable and in conformance with this Debt Management Policy and (2) 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.** Current URA borrowing capacity is determined by developing a five-year projection of tax increment revenues. Projections will (1) include analysis of historical assessed value and tax increment revenue collections (2) incorporate reasonable assumptions regarding future assessed value growth and (3) 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.

Within tax increment revenue projections, existing Council-adopted development agreements or similar contractual obligations that provide the City with reasonable assurance that assessed value of new taxable, non-abated development may be incorporated at the discretion of the Debt Manager, based on the particular nature of the contractual obligations of the private developers. As general policy, speculative development shall not be included in tax increment revenue projections.

Exceptions to borrowing 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 or other City resources 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 or other

resource 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.

XIII. AFFORDABLE HOUSING GENERAL OBLIGATION BONDS

Subject to the limitations of City indebtedness under Section II. A. of this Policy, the City may issue voter-approved unlimited tax general obligation bonds to fund capital costs of affordable housing projects within the City. Guidelines for the use of affordable housing general obligation bond proceeds are as follows:

1. To acquire property and improvements owned by the City;
2. For the acquisition and subsequent leasing of City-owned land and/or property for a third-party-owned project's operations;
3. As allowed under 2018 Oregon Measure 102, to provide "gap funding" loans awarded to third-party owned projects and disbursed upon the closing of other funding sources required for project viability (e.g. construction/permanent "1st lien" financing, low income housing tax credit equity, developer equity and other required funds);
4. To reimburse the Portland Housing Bureau for eligible affordable housing capital costs, which were originally funded from non-general obligation bond funds.

Certain affordable housing costs are ineligible for general obligation bond funding, including (1) operating expenditures for permanent supportive housing services, (2) a project's operating cash reserves, (3) direct "pre-development" loan disbursements (unless the Debt Manager authorizes the use of proceeds for this purpose on a case-by-case basis), and (4) any other cost that is not clearly capitalizable under U.S. Generally Accepted Accounting Principles.

As with other long-term borrowings of the City, the Portland Housing Bureau is responsible for documentation and record keeping that all general obligation bond proceeds disbursements are for capitalizable costs.

XIV. GREEN BONDS

The City may elect to issue "Green Bonds" to finance capital projects with demonstrable and quantifiable environmental benefits. The Debt Manager shall establish guidelines and procedures for bureaus electing

to issue Green Bonds, including requirements for project disclosure both in the primary offering document and ongoing disclosure, rating agency or other third-party review and certification, and other provisions that the Debt Manager determines are advantageous to address market requirements.

Bureaus electing to issue Green Bonds should understand that such bonds will require additional bureau project disclosure, both in the primary offering document (official statement) and for each year that the bonds are outstanding. Further, bureaus issuing such bonds should understand that green bond status may not necessary translate to a benefit in bond pricing (lower cost of borrowing) and may involve additional costs of issuance at the time the bonds are sold.

Green Bonds shall be issued in conformance with the City's Green Bond Framework (<https://www.portlandoregon.gov/brfs/article/736004>).

XV. USE OF CREDIT ENHANCEMENT

The City may use credit enhancement (letters of credit, bond insurance, surety bonds, etc.) when such credit enhancement provides economic benefit or is otherwise beneficial to the execution of a financing. Selection of credit enhancement providers shall be subject to a competitive bid process developed by the Debt Manager.

XVI. 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 Prosper, Portland Housing Bureau or other 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 BRFS Director/CFO 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.

Pursuant to City Code Section 5.72.080, conduit financings shall either:

1. Carry an investment grade rating ("BBB-" or above) issued by a nationally recognized rating agency (e.g. Moody's Investors Service, S&P Global Ratings, Fitch Ratings, etc.).
2. Be sold via a private sale only to 'accredited investors' as defined in City Code Section 5.72.080.

The obligated borrower in a conduit financing shall be responsible for post-issuance compliance (and associated costs), such as arbitrage rebate, continuing disclosure and any federal audit requirements of the bonds. Prior to the closing of the bonds, the obligated borrower shall 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.

XVII. 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 (see [FIN 2.13 Interest Rate Exchange Agreement](#)).