DEBT POLICY
DATED OCTOBER, 2023
CITY OF LONGMONT, COLORADO

I. POLICY PURPOSE

The City's Debt Policy sets forth objectives and defines guidelines, constraints, and responsibilities to pursue fiscally prudent debt management practices to issue debt with the most cost effective means given prevailing market conditions. *As used in this policy, the term Debt is synonymous with Bonds, Notes, Loans or Lease Purchase Agreements. This policy was adopted by the Longmont City Council on October 24, 2023.*

The general objectives of this policy are:

1) to assure that the City maintains access to the capital markets *and* to be able to obtain funds at a reasonable cost; and,
2) to maintain ~~and pursue~~ the highest *achievable* debt rating*s while balancing the operational needs of the City* ~~for individual types of debt~~; and,
3) to ensure compliance with all *debt*~~bond or loan~~ covenants, any Federal, State or City legal requirements and on-going SEC disclosure requirements.

II. LONG TERM DEBT

1) Long-term debt, as a financing mechanism, should be used to equitably spread the capital cost of a facility or project between current and future users.
2) The City will consider using long-term debt as appropriate for the acquisition of property or other long-term assets and for the acquisition, development, construction or renovation of capital facilities, capital projects, capital equipment and infrastructure.
3) Long-term debt shall never be used to fund operating expenditures.

III. TYPES OF BORROWINGS

The City's Debt Policy applies to all forms of borrowings and all funds that provide revenues to support the repayment of such obligations. Types of *debt*~~long-term obligations~~ used or outstanding include but are not limited to the following:

General Obligation (GO) ~~debt~~;
Sales & Use Tax Revenue*;* ~~Bonds~~
Enterprise Revenue ~~Bonds and Notes~~;
Tax Increment Revenue*;* ~~Bonds~~

Lease-purchase *agreements which may or may not be* ~~obligations~~ evidenced by Certificates of Participation (COPs).
~~Equipment leases~~

IV. LEGAL AUTHORITY

The City will comply with the *applicable* provisions of Article XI *and Article X, Section 20* of the State Constitution and a*pplicable provisions of*~~ll~~ State Statutes~~ and amendments~~ regarding debt issuance and debt limitations, and the provisions of the City's Home Rule Charter that relate to City indebtedness (Article X — Bonded Indebtedness attached hereto as Addendum A)

V. DEBT LIMITATIONS

1. City Charter

Under the Longmont City Charter, both General Obligation bonds and Revenue bonds require voter approval except that the City Council may issue revenue bonds without voter approval provided that the aggregate amount of the revenue bonds outstanding at any time, issued without voter approval, shall not exceed one half of one percent of the assessed valuation of the taxable property within the City.

As noted under State Debt Limitations below, only Revenue bonds issued by an Enterprise can be issued without voter approval under the Colorado Constitution. Any other Revenue bonds, including Sales Tax Revenue Bonds, require voter approval.

The total outstanding general obligation indebtedness of the City, other than water bonds, shall not at any time exceed three percent of the actual value of the taxable property within the City.

2. State Debt Limitations

Constraints on the use of debt financing are also defined in the Taxpayer Bill of Rights (TABOR) amendment to the Colorado Constitution, and other Colorado law and court decisions. In particular, TABOR (Article X, Section 20) requires voter approval of any multiple-*fiscal-*year debt obligation unless the debt is:

a~~1~~) issued by an Enterprise
b~~2~~) a refunding to a lower interest rate below the existing rate
c~~3~~) for borrowings structured as an obligation of less than one year, or
d~~4~~) secured by sufficient cash reserves which are pledged irrevocably for all debt payments.

Borrowings exempt from the TABOR voter approval requirement include~~ operating leases~~, lease-purchases, and Certificates of Participation, *both*~~all~~ of which are subject to annual appropriation and thus~~ are~~ not considered multiple*-fiscal*-year debt obligations.

Urban Renewal Authority bonds do not require voter approval. Bonds issued on behalf of the Downtown Development Authority require voter approval by the *eligible electors*~~property owners~~ within the Authority area.

3. Bond Covenants *and Financial Metrics*

Prior to issuing new debt Staff will review limitations of existing *debt including any* additional bond tests and other legal bond covenants and obtain guidance from the City's *Finance Team that any new issue is in compliance with such covenants.*

The Chief Financial Officer or designee shall work with the Municipal Advisor to evaluate any financial metrics associated with such issuance such as debt service coverage or fund balance~~financial advisor~~ relative to benchmarks incorporated into the rating agencies' analysis of similar issues *to assess any potential impacts on the rating of such issuance while taking into account operation needs of the City.*~~.~~

VI. DEBT ADMINISTRATION

1. General

The *Chief Financial Officer*~~Finance Director~~ or designee shall plan for and coordinate the issuance of all forms of debt and submit recommendations to City Council for approval prior to issuance. All long-term debt issuance will be coordinated by the Finance Department with the assistance of a Finance Team, which may include advisors such as *municipal*~~financial~~ advisor, bond counsel, bond disclosure counsel, underwriter, arbitrage specialists, and feasibility consultants.

2. Use of Advisors

The City generally hires certain professionals for the debt issuing process in order to comply with *generally accepted best practices,* any and all local, State and Federal laws and previous debt provisions/covenants*. The Finance Team will prepare and review* ~~, to administer~~ all legal paperwork~~,~~ and ~~to~~ monitor market conditions to ensure *all* debt *achieves interest rates*~~capital is obtained at the lowest reasonable market price~~ in line with similarly rated municipalities and *credits under* current market conditions.

3. Bond Ratings

Generally, the City's debt issues will be rated by one or more nationally recognized rating agencies, currently Standard and Poor's, Moody's and Fitch. Where applicable a rating will be obtained for both the underlying credit and for the rating after considering the impact of any credit enhancing instrument that might be employed.

The City will keep rating agencies that rate City debt, informed regarding the City's overall financial condition, the financial condition of any fund whose revenues are pledged to debt service, any other operational or strategic factors that may impact the debt ratings, and any pending debt issuance. The City will be responsive to any requests for information that rating agency staff may have when they are performing periodic reviews of the City's debt issues.

City Council will be appraised of any rating changes in a timely manner.

4. Covenant Compliance

The City will comply with bond covenants throughout the term of the obligation. Financial covenants may limit the issuance of additional bonds or require that pledged revenues be increased to maintain financial performance. There also may be operational covenants such as reporting requirements, compliance with existing laws, etc., that must be complied with.

5. Disclosure Compliance

Continuing disclosure requirements under Rule 15c2-12 issued by the Securities and Exchange Commission (SEC) apply to certain debt undertakings of the City. The City will comply with all such Federal or other State reporting requirements on a timely basis. In addition, the City will comply with the Reporting of Material Events as identified within the respective issue's Continuing Disclosure Certificate on a timely basis and solicit advice from Disclosure Counsel regarding mandatory and voluntary continuing disclosure reporting. *The City will follow the established Post Issuance Compliance procedures adopted May 7, 2012 and amended on April 20, 2023.*

VII. DEBT STRUCTURE

1. Term of Debt

The length of long-term financing is generally never greater than the life expectancy of an asset purchased or built with the debt funding. A key outcome of a debt structure is to amortize capital costs with a fair allocation to the current and future beneficiaries.

Under the City Charter, bonds of the City, other than water bonds, shall mature in not more than *twenty-five*~~25~~ years from date of issuance and shall be payable in annual installments commencing not later than five years after the date of issue of said bonds. Water bonds shall mature and be payable as provided by the ordinance authorizing the issuance of said bonds.

2. Debt Service Levels

The City's general preference is to structure fixed level debt payments to the extent possible and to avoid back-loading principal payments. Wrap structures may be considered if certain circumstances warrant.

3. Interest Rate Structure

a. Cost of Capital

The City will seek to minimize the true interest cost of each debt issue given the prevailing conditions in the market~~-~~place at the time of issuance. Generally the City will favor issuing tax-exempt debt since Federal and State income tax rules for interest income earned by owners of such debt exempt this income from taxes, which thereby reduces the City's interest expense. However, taxable bonds also may be used in certain circumstances such as when the private content of a project funded by City debt may exceed the limits set by Federal law *or for refundings which constitute advance refunding bonds under Federal law*.

b. Use of Variable Rate Debt

The City does not normally issue variable rate debt. However, certain circumstances may warrant the issuance of variable rate debt, so it may be used by the City as a strategy for the debt portfolio. In such cases the City may choose to stabilize the debt service payments through the use of an appropriate stabilization arrangement.

c. Use of Capitalized Interest

For certain debt undertakings that are supported by a specific revenue stream, such as a redevelopment project associated with an URA, income from the project may take several years to develop. In such cases capitalized interest, for up to three years, may be structured into the borrowing to fund interest payments until sufficient project revenues can be generated to cover debt service. The amount of capitalized interest is based on the projected period from the bond sale to the expected time when income generation will be adequate to service debt payments.

4. Premium/Discount

The City shall not prescribe a certain level of premium or discount and will accept such level that is established at the time of pricing of the debt.~~Reflective of market conditions and financing needs, the City prefers that bonds will be sold as close to par as possible while still providing liquidity for its investors.~~ Premiums and discounts will be amortized according to generally accepted accounting principles.

5. Method of Sale

Under the City Charter bonds shall be sold to the highest and best bidder for cash at public sale; provided, however, that the city shall reserve the right to reject any and all bids for the purchase of said bonds and sell the same at private sale if it is to the best advantage of the city as determined by the *City C*~~c~~ouncil. Bonds may contain provisions for calling the same at designated periods prior to maturity. URA bonds and annual appropriation lease obligations (including certificates of participation) are not subject to this requirement.

For avoidance of doubt the term public sale shall mean a competitive sale executed through the publishing of an official notice of sale and held in accordance with widely accepted market *practices at the time of issuance of such debt. The term private sale shall mean a negotiated sale with a financial institution selected through a competitive process.*

6. Credit Enhancement

In order to enhance the overall rating of the debt issue, certain debt issues may warrant the purchase of credit enhancement, such as insurance or letters of credit. Finance will consult with advisors and assess the potential benefit of purchasing a credit enhancement. Projected debt service savings for any credit enhancement shall be greater than the cost of the credit enhancement vehicle.

7. Moral Obligation

To improve marketability and reduce debt service costs, the City may consider making a "moral obligation" pledge to support certain borrowings. A moral obligation is a non-binding statement of the City Council to consider making an appropriation of funds to replenish Reserve Fund advances as defined in the bond documents. The conditions for moral obligation triggers are spelled out in Replenishment Resolutions or Cooperation Agreements, along with the basis of reimbursement to be made to the City by the issuer should the City's replenishment of the Reserve Fund be required.

8~~7~~. Call Provisions

The City's preference is to sell bonds with prepayment flexibility at the earliest call dates which do not interfere with marketability or unduly increase borrowing costs. This analysis will be completed by the *municipal*~~financial~~ advisor and will be based on market conditions at the time of issuance.

9~~8~~. Debt Reserves

Depending on the issue, a debt reserve fund may be created and funded with bond proceeds or cash which may be available from other sources. The minimum required reserve amount will be determined for each issue, but generally should not exceed 10% of the original issue's principal par value. In lieu of cash funding a debt reserve at closing, the reserve requirement may be met with a qualified financial product or with a promise to fund the reserve in the future on a contingent or "springing" basis depending on financial performance or future credit ratings.

10~~9~~. Refundings

The City will analyze refunding opportunities to determine if interest rates have declined sufficiently to be financially advantageous to refinance at the lower rates. ~~Per GFOA best practices,~~ *A*~~a~~ refunding should only be pursued if the present value of the savings, net of bond expenses, exceeds 5% of the refunded principal. It is the City's preference not to extend the amortization period of the refunding issue beyond the final maturity of the original issue to be refunded. *A refunding that does not achieve 5% present value savings or one that extends the final maturity of the loan may be executed if such refunding is advantageous to the City by* *eliminating burdensome bond covenants, increasing debt service coverage, or other similar legal or financial benefits.*

a. Advanced Refunding
Under current IRS regulations an advanced refunding *cannot be executed on a tax-exempt basis.* ~~is only permitted once per issue.~~ In an advanced refunding, the City may refinance bonds at a lower interest rate when the outstanding bonds are callable ~~and remain outstanding for a period of~~ more than 90 days after the issuance of the refunding issue. Proceeds from the sale of the refunding bonds are used to purchase permissible legal securities, which are deposited into an escrow account. The escrow account shall be structured so that the principal and interest earned on the securities are sufficient to pay all principal, interest, and call premium, if any, on the outstanding bonds up to and including the call date. This structure shall be calculated and certified by a financial agent.

b. Current Refunding
A current refunding occurs when an issue is *callable*~~retired~~ within 90 days after *issuance of the refunding issue.*~~the new bonds are sold.~~ Proceeds of the refunding issue are used to *redeem*~~purchase~~ the refunded bonds from investors at the maturity date or at a call date prior to the maturity date. This type of refunding may be pursued *on a tax-exempt basis* more than once in accordance with call provisions.

1*1*~~0~~. Subordinate Debt

The use of subordinate debt is permissible after assessing the overall cost and flexibility it would have on senior debt service obligations.

1*2*~~1~~. Inter-fund Borrowing

This form of borrowing is a loan between two or more different funds of the City and/or its related entities. The terms of these borrowings are detailed within the respective debt documents. Borrowing between funds may also be employed when it is cost effective or financing is otherwise unavailable; however, as a general rule, inter- fund borrowing is not encouraged. When applicable, this form of borrowing will state the repayment terms, and interest rate. Under the City Charter, any utility fund making such a loan must be repaid prior to any rate increase by the loaning utility.

1*3*~~2~~. Equipment Lease Purchases

Equipment lease purchase agreements may be considered for short to mid-term borrowing needs, *3-15* years. The Finance department will research and administer all equipment leases if pay-as-you-go funding is not desirable for the purchase of equipment.

The City may enter into equipment leases for capital items such as fire trucks, golf carts, and copiers. Leases may be entered into for assets with useful lives of three years or more. The length of the lease should not exceed the useful life of the asset financed.

1~~4~~3. Investment of Bond Proceeds

Debt proceeds shall be invested in accordance with the City's Investment Policy but may be more restrictive per the bond ordinance and are subject to arbitrage restrictions per Federal regulations. The City will segregate bond proceeds from other invested funds in order to efficiently monitor the use of the funds and all interest earnings by holding all bond proceeds in a trust or custodial account for the purpose of efficiently calculating arbitrage reports. Prior to issuance, Finance attempts to develop a draw-down schedule with the cooperation of project managers. The schedule is then utilized to structure investment maturities aligned with anticipated cash-flow requirements. When deemed necessary, the City will employ the services of an investment advisor to efficiently structure the portfolio and will employ the services of an arbitrage consultant to calculate any potential rebate due the federal government from excess earnings.

ADDENDUM A — Debt Policy for the City of Longmont

City Charter , Debt Related Provisions

ARTICLE X. - BONDED INDEBTEDNESS

10.1. - General obligation bonds.

Indebtedness and obligations of the city shall be incurred and limited as provided in Articles XI and XX of the Constitution of the State of Colorado, applicable to towns and cities, except as otherwise provided in this Charter. The council shall have power to issue general obligation bonds of the city for any public purpose upon the affirmative vote of a majority of the qualified electors of the city voting thereon, at any special or general election. The total outstanding general obligation indebtedness of the city, other than water bonds, shall not at any time exceed three percent of the actual value of the taxable property within the city as shown by the last preceding assessment for tax purposes, or otherwise as may be established and permitted by the laws of the State of Colorado applicable thereto. Bonds of the city, other than water bonds, shall mature in not more than 25 years from date of issue, and shall be payable in annual installments commencing not later than five years after the date of issue of said bonds. Water bonds shall mature and be payable as provided by the ordinance authorizing the issuance of said bonds.
(Question J, 11-2-1993; Amd. No. 2, 1979)

10.2. - Revenue bonds.

The council shall have power to issue revenue bonds for any public purpose upon the affirmative vote of a majority of the qualified electors of the city voting thereon, at any special or general election. The council shall have power to issue revenue bonds for any public purpose without the vote of the qualified electors, provided that the aggregate amount of the revenue bonds outstanding at any time, issued without being authorized by such vote, shall not exceed one-half of one percent of the assessed valuation of the taxable property within the city as shown by the last preceding assessment for tax purposes.
(Question J, 11-2-1993)

10.3. - Refunding bonds.

The council may authorize by ordinance, without an election, issuance of refunding bonds for the purpose of paving outstanding bonds of the city, including special improvement bonds; provided such refunding does not result in an increase in the interest rate.

10.4. - Special and local improvement district bonds.

Special and local improvement districts may be initiated either (a) by resolution of the council, or (b) by petition of 25 percent of the property owners in the designated district; subject in either event to protest by the majority of the property owners in the designated district. Right of protest and notice of public hearing is hereby given in the method to be provided by ordinance.
Unless a majority of the property owners within the designated district file objection pursuant to such ordinance, the city shall have power to contract and construct, or install special or local

improvements within the designated district in the city. The council shall prescribe by ordinance the method and manner of making such improvements, of assessing the cost thereof, of issuing and paying bonds for costs and expenses of constructing and installing such improvements.

10.5. - Special or local improvement district bonds—Special surplus and deficiency fund.

Whenever all outstanding bonds of a special or local improvement district shall have been paid, any moneys remaining to the credit of the district shall be transferred to a special surplus and deficiency fund. Whenever there is a deficiency in any special or local improvement district fund to meet the payment of outstanding bonds and interest due thereon, the deficiency shall be paid out of said surplus and deficiency fund. Whenever a special or local improvement district shall have paid and cancelled three-fourths of its bonds issued, and for any reason the district is unable to pay the remaining bonds and interest when due, and after applying any money available in the special surplus and deficiency fund, the city shall pay the remaining bonds when due and interest due thereon and reimburse itself by collecting the unpaid assessments due the district.

Should the city pay any bonds which it is authorized to pay under this section, the limitation provided for in section 10.1 of this Charter shall not apply to such bonds and the interest thereon.

10.6. - Special or local improvement district bonds—General benefits.

In consideration of general benefits conferred on the city at large, by reason of the construction or installation of improvements in special or local improvement districts, the council may levy annual taxes on the taxable property within the city, not exceeding two mills in any one year, to be disbursed as determined by the council for the purpose of paying for such benefits, for the payment of any assessments levied against the city itself in connection with bonds issued for special or local improvement districts, and for the purpose of advancing money to maintain current payments of interest, and equal annual payments of the principal amount of bonds issued for any special or local improvement district hereafter created. The proceeds of such taxes shall be placed in a special fund, and shall be disbursed only for the purposes specified herein; provided, however, that in lieu of such tax levies, the council may annually transfer to such special fund any available money of the city, but in no event shall the amount transferred in any one year exceed the amount which would result from a tax levied in such year as herein limited.

As long as any bonds issued for special or local improvement districts hereafter organized remain outstanding, the tax levy or equivalent transfer of money to the special fund created for the payment of said bonds shall not be diminished in any succeeding year until all of said bonds and the interest thereon shall be paid in full, unless other available funds are on hand therefor, or such bonds and interest are paid by the city, as required in section 10.5 of this Charter.

10.7. - Bond sales—Limitations.

Bonds shall be sold to the highest and best bidder for cash at public sale; provided, however, that the city shall reserve the right to reject any and all bids for the purchase of said bonds and sell the same at private sale if it is to the best advantage of the city as determined by the council. Bonds may contain provisions for calling the same at designated periods prior to maturity.

10.8. - Public improvement financing.

Anything contained in this article X to the contrary, notwithstanding, the council shall be authorized for the purpose of cooperating with or assisting an authority or district created pursuant to (C.R.S. § 31-25-101 et seq.), as the same presently exists or may be hereafter amended, including downtown development and urban renewal authorities, and special districts, existing within the city, and without an election or the one-half of one percent of assessed valuation limitation set forth in section 10.2 of this Charter, to grant, loan or pledge to such authority all or any portion of incremental ad valorem property tax or incremental sales and use tax proceeds, or both levied and collected for the benefit of the city within an authority or district area as to which a plan for development has been adopted by the council, and, in the discretion of the council, to create and incur indebtedness and issue bonds of the city, both indebtedness and bonds to be payable solely from such incremental ad valorem property tax proceeds or incremental sales and use tax proceeds, or both, with or without the additional or the exclusive pledge of revenues derived solely pursuant to the plan for development adopted. As used in this section, the term "incremental ad valorem tax proceeds" shall mean that portion of such taxes produced by the levy at the rate fixed each year by the council upon that portion of the valuation for assessment of taxable property within the authority or district area which is in excess of the valuation for assessment of such taxable property last certified prior to the effective date of the ordinance of the council authorizing such loan, grant, pledge, incurrence of indebtedness or issuance of bonds, or, as to an area later included within such area, the effective date of the ordinance including the area within the existing authority or district. As used in the paragraph the term "incremental sales and use tax proceeds" shall mean that portion of the proceeds of city sales and use tax collected within the authority or district area, if any, in excess of the amount of such proceeds collected within such area for the city's fiscal year next preceding the effective date of the ordinance of the council, authorizing such grant, loan, pledge, incurrence of indebtedness or issuance of bonds, or as to an area subsequently included to the existing authority or district, the effective date of the ordinance including such area within the authority or district. Any securities issued pursuant to this section 10.8 shall not be included in the determination of the debt limitation based on actual value of taxable property as set forth in section 10.1 of this Charter.

In the event there is a general reassessment of taxable property valuations in the County of Boulder, Colorado, including all or part of the area of the authority or district subject to a division of valuation for assessment under the provisions of this section, or a change in the sales and use tax percentage levied in any municipality including all or part of the authority or district area subject to division of sales and use taxes under the provisions of this section, the portions of valuations for assessment or sales and use taxes herein contemplated shall be proportionately adjusted in accordance with such reassessment or change.