



CITY & COUNTY OF BROOMFIELD

DEBT POLICY DRAFT

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DRAFT

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Scope and Purpose

The Debt Policy for the City and County of Broomfield (the “City”) is established to help ensure that the City maintains its strong credit rating and that debt is issued both prudently and cost effectively. Broomfield will consistently apply this Debt Issuance Policy (the “Policy”) in consideration of potential future issuances of debt.

The Debt Policy establishes criteria and objectives for the issuance of debt obligations. Debt financing can include general obligation (GO) bonds, revenue bonds, certificates of participation (COP), leases and any other obligations of the City permitted to be issued or incurred under Colorado law.

The City will manage its debt issuances and Capital Improvement Plan (CIP) to maintain affordability of its debt service. All debt issued by the City shall be issued pursuant to this Policy with the intended goals and objectives set forth herein.

Debt Philosophy

The Policy has been established to serve as a guideline for the issuance of obligations, mitigate risk to the City, and to facilitate the compliance of federal, state, and local securities law. Its purpose is not to regulate the issuance of any such obligations.

The considerations within this policy are consistent with Colorado State and Local law and other applicable laws, and incorporate further controls to achieve Broomfield’s policy objectives. The City and County Manager and Attorney shall coordinate their activities to ensure that the City Attorney may issue an opinion that all obligations issued by the City comply with applicable laws and regulations of the City, state, and federal governments. All obligations issued shall comply with applicable covenants.

Authority

[Chapter XIV](#) of the City’s Home Rule Charter (Charter), entitled “Municipal Funding”, authorizes the City to borrow money or enter into obligations and issues securities or other evidences of such indebtedness in such a form and manner as determined by the City Council to be in the best interests of the City subject to the applicable limitations in the Colorado Constitution, including limitations set forth in the Taxpayer’s Bill of Rights (TABOR). The exceptions to this provision are:

- Refinancing bonded debt at a lower interest rate;
- Adding new employees to the pension plan; or
- Pledging adequate present cash reserves irrevocably, to be held for payment in all future years.

According to [Article X, Section 20 of the Colorado Constitution](#), TABOR(4)(b) requires voter approval in advance of the “creation of any multiple fiscal year direct or indirect district Debt or other financial obligation whatsoever”, unless it is issued for a TABOR defined government enterprise.

The City’s TABOR-defined Enterprises include the Water Fund, the Sewer Fund, and the Water Reclamation Fund. Operating leases, lease purchases, and COP’s that are subject to annual appropriation are not considered multiple-year debt and are not subject to TABOR election requirements.

Per [Section 14.1](#), entitled “Forms of Borrowing” of the Charter, the City may borrow money and issue the following types of debt:

- Short-term notes;
- General obligation bonds and other like securities;
- Revenue bonds and other like securities;
- Special or local improvement bonds and other like securities; and
- Any of the legally recognized security which Council may provide.

Furthermore, per [Section 14.7](#), entitled “ Limitations on Indebtedness”, outlines that “The aggregate amount of bonds or other evidences of indebtedness of the City shall not exceed ten percent (10%) of the assessed valuation of the taxable property within the City as shown by the last preceding assessment for City purposes; provided however, in determining the amount of indebtedness, there shall not be included within the computation:

- Bonds or other evidences of indebtedness, outstanding or authorized to be issued for the acquisition, extension or improvement of a municipal water-works system, or municipal storm sewer, sanitary sewer, combined storm and sanitary sewers, or sewage disposal systems;
- Short-term note;
- Special or local improvement securities;
- Securities payable from the revenues of an income-producing system, utility, project, or other capital improvement or from City sales or use taxes.
- Long-term installment contracts other than real property acquisitions, rentals and leaseholds pursuant to [Section 14.9](#).”

Use of Debt Financings

Cash Basis (Pay-as-you-Go) vs. Debt Financing

Debt is one option that Broomfield has to pay for a capital asset. Below are the conditions when to consider the use of cash versus debt financing on certain projects:

- Factors which may favor Cash financing include circumstances where:
 - o Project can be adequately funded from available current revenue and reserves;
 - o Project can be completed in an acceptable time frame given the available resources;
 - o Additional debt levels could adversely affect the City’s credit rating or repayment sources; or
 - o Market conditions are unstable or are not conducive to marketing debt.

- Factors which may favor Debt financing include circumstances where:
 - Low construction costs
 - Current revenue or reserves are insufficient to pay project costs;
 - Project is immediately required;
 - Revenue available for debt issues are considered sufficient and reliable so that long-term financing can be marketed with an appropriate credit rating, which can be maintained;
 - Market conditions present favorable interest rates and demand for municipal debt financing; or
 - Useful life of the project or asset is five (5) years or greater
 - Cost of financing versus waiting to cash fund is advantageous

The City will not use long-term debt to finance any recurring purpose such as current operations. Debt financing will be used only for capital improvement projects and large equipment purchases. Debt payments shall not extend beyond the estimated useful life of the project or the equipment being financed.

Types of Debt Financings

The following types of Debt may be issued by the City:

Short Term Notes

Notes that mature before the end of the calendar year, in which they are issued. The issuance of short term notes is generally in anticipation of tax revenue or other revenue.

- Short-term notes are used in anticipation of refunding them at a future date with long-term bonds.
- Notes are used as a temporary funding source prior to and in anticipation of the completion of a bond sale and should only be used if absolutely necessary.

General Obligation Bonds

These are bonds backed by the credit and taxing power of the City and not from revenue of any specific project.

- Per [Section 14.3](#) of the City Charter, no bonds or other evidence of indebtedness payable in whole or in part from the proceeds of general property taxes or to which the full faith and credit of the City is pledged, shall be issued, except in pursuance of an ordinance adopted and approved by two-thirds (2/3) vote of the entire Council, or until the question of their issuance shall, at a general or special election, be submitted to a vote of the electors and approved by a majority of those voting on the question. The Council may, without voter approval, issue such securities in total amounts not to exceed two percent (2%) of the assessed valuation of the taxable property within the City, as shown by the last preceding assessment for city purposes.

- General Obligation debt shall be prudently structured with respect to principal amortization. The City will target a combined principal pay-out rate that is within rating agencies guidelines for the desired credit rating level.
- The City's General Obligation debt per capita shall not exceed 80% of the median of comparable Cities. The City will also target a net direct debt level as a percentage of market value at a level within rating agency guidelines for the desired credit rating level.

Revenue Bonds

The revenue of a specific project or source and not the general revenues of the City backed Revenue Bonds. The revenue source is pledged specifically for repayment.

- As a general rule, enterprise revenue bonds will be used to finance assets that generate revenue which repay the Obligation issued.
- The use of revenue bonds is the favored form of Obligation if direct beneficiaries of a given improvement can be clearly identified and such beneficiaries can pay for a fair share of its costs.
- Revenue bond covenants such as reserves and debt service coverage ratios will be structured to maintain or improve credit ratings.

Certificates of Participation

Financing whereby the investor purchases all or a portion of the annually-appropriated lease revenues secured by an asset or any revenues of the City.

- Financing of assets will be used only for long lived assets that, if financed with cash annually, would be disruptive to the City's capital planning program.
- Capital improvements financed should be for basic and essential City services;
- The useful life of the asset(s) being financed should not be shorter than the term of the lease, but the maximum term of the financing should not exceed 30 years for real estate assets and 15 years for all other assets.

Structure of Debt Financing

Debt shall generally be structured for the shortest period of time to allow for the fair allocation of costs to current and future beneficiaries or users of the asset. In addition, Debt shall be structured to achieve the lowest possible net cost to the City given the market conditions, the urgency of importance of the Capital Project or Capital Asset, and the nature and type of security provided.

The following are only guidelines, which may be modified by the City to meet the particulars of the financial markets at the time of the issuance of a debt obligation:

- Bond Insurance: On a case by case basis the City will analyze the use of bond insurance. Bond Insurance should only be utilized if it provides an economic benefit to the City.
- Call Provisions: Call provisions for bond issues shall be made as short as possible, consistent with the lowest interest cost to the City. Unless specific compelling reasons exist, all bonds shall be callable only at par.
- Capitalized Interest: Interest during construction will be capitalized in the enterprise fund only. Interest during construction for all other assets will be expensed.
- Credit Enhancements: Credit enhancements may be used if the costs of such are lower than the reduction in net debt service payments or if they provide other significant financial benefits for the City.
- Debt Service Reserve Fund: The City will utilize, whenever financially beneficial, other forms of reserve funds including surety policies, letter of credit or similar arrangements in lieu of a cash funded reserve.
- Method of Sale: Any debt may be structured as a public sale, a negotiated sale, or a private offering upon the advice of the City's financial advisor.
- Structure of the Debt: Level debt service will be used unless otherwise dictated by the useful life of the asset(s) and/or upon the advice of the City's financial advisor. Pushing higher debt service costs to future years will only be considered under special circumstances. The City will also generally avoid repayment schedules that consist of low annual payments and a large payment of the balance due at the end of the term. There shall always be at least one interest payment in the first fiscal year after a bond sale. Principal repayment shall start no later than the third year after the bond issue except for special circumstances.
- Term of the Debt: Debt will be amortized for the shortest period consistent with a fair allocation of cost to current and future beneficiaries of the project being financed, and in keeping with other related provisions of this policy. The City shall normally issue general obligation bonds or revenue bonds with a maximum life of thirty years or less.
- Variable Rate Debt: The City will normally not issue variable rate debt, meaning debt at rates that may adjust depending upon changed market conditions. However, it is recognized that certain circumstances may warrant the issuance of variable rate debt in which case, the City will analyze the financial flexibility versus risk of issuing variable rate debt.

Refunding of Outstanding Debt

Periodic reviews of all outstanding debts will be undertaken by the Finance Director and Financial Advisor to determine refunding opportunities. Refundings will be considered (within legal constraints) if and when there is a net economic benefit of the refunding, or if the refunding is essential in order to amend covenants to enhance operations and management.

- As a general rule, refundings will only be considered if the present value savings (net of all costs) of a particular refunding will exceed five percent (5%) of the refunded principal.
- The City will take necessary steps to optimize execution and avoid negative arbitrage.
- With respect to each bond refunding, the City will evaluate its debt portfolio with respect to refunding bond candidates in order to minimize any negative impact on savings and/or refunding efficiency. For example, the City will review the potential use of taxable bonds.
- The term of refunding bonds should match the term of the outstanding bonds unless otherwise approved by the Department of Finance.

Debt Limitations and Capacity

The City shall maintain outstanding Debt limits at levels consistent with City Council direction, or other provisions. The Debt capacity will be evaluated by the annual dollar amount paid in Debt service and the total amount outstanding with the goal to maintain the City's overall issuer rating at the very highest rating, depending on the type of bond.

Debt Administration Practices

Financial Advisor: A financial advisor will be used to assist the City in structuring the best possible debt provisions. For each debt issuance, the financial advisor will provide the City with information and recommendations on all aspects of the issuance, including market opportunities, method of sale, structure, term, pricing, and fees.

Bond and Disclosure Counsel: The City will retain an external bond and disclosure counsel. All debt issues of the City will include a written opinion by bond counsel on the validity of the bond offering, the security for the offering, and whether and to what extent interest on the bonds is exempt from income and other taxation.

Arbitrage Compliance: It is the City's policy to minimize the cost of arbitrage rebate and yield restriction while strictly complying with the law. The City will not issue obligations except for identifiable projects with very good prospects of timely initiation. Because of the complexity of the arbitrage rebate regulations and the severity of noncompliance penalties, the City will use the services of Bond Counsel and other arbitrage compliance experts when determining arbitrage liability, reporting, and exemptions.

Financial Disclosure: The City is committed to full and complete financial disclosure and to cooperating fully with rating agencies, institutional and individual investors, other levels of government, and the general public to share clear, comprehensible, accurate, and timely financial information. Continuing disclosure requirements under Rule 15c2-12 issued by the Securities and Exchange Commission (SEC) may apply to certain debt transactions of the City. The City will comply with all such Federal or other State reporting requirements on a timely basis.

Monitoring and Review of Policy

The Finance Department will regularly monitor the requirements of this policy and report policy changes to the City Manager's Office and the City Council for approval.

Broomfield shall evaluate and consider factors, such as the following when analyzing, reviewing, and recommending the issuance of obligations:

1. The Capital Improvement Plan (CIP) to include City & Enterprise;
2. Purpose and feasibility of the project;
3. Public benefit of the project;
4. Impact on debt ratios generally accepted by rating agencies;
5. Impact on the General Fund;
6. Availability of appropriate revenue streams, including stress testing analysis;
7. Market & Revenue studies needed to determine feasibility;
8. Debt Service requirements including credit implications;
9. Aggregate debt burden upon the Broomfield's residents;
10. Analysis of financing and funding alternatives, including interfund borrowing;
11. Opportunity costs of City Resources and competing capital needs;
12. Political and policy implications;
13. True interest cost of the proposed financing;
14. Impact of redemption features on pricing and cost benefit analysis of call features;
15. Net Present value of any refunding on a percentage and absolute dollar basis.