

CITY OF TAKOMA PARK, MARYLAND DEBT MANAGEMENT POLICY

The City's debt management policies should be guided by the maintenance of a balanced relationship between issuing debt and "pay-as-you go" financing. The City Code and City Charter provide some guidance regarding the issuance of debt.

Article VIII, FINANCE, Section 822, of the City of Takoma Park Charter provides that the City should have the power to borrow in anticipation of the collection of the property tax levied for that fiscal year during the first six months of any fiscal year. The City can issue tax anticipation notes or other evidences of indebtedness as evidence of such borrowing. Such tax anticipation notes or other evidences of indebtedness shall be a first lien upon the proceeds of such tax and shall mature and be paid not later than the end of the fiscal year in which they are issued. No tax anticipation notes or other evidences of indebtedness should be issued which will cause the total tax anticipation indebtedness of the City to exceed fifty percent (50%) of the property tax levy for the fiscal year in which such notes or other evidences of indebtedness are issued. All tax anticipation notes or other evidences of indebtedness shall be authorized by ordinance before being issued.

Section VIII, FINANCE, Section 823, of the City Charter provides the City of Takoma Park City Council with the power to borrow money for any proper purpose and to evidence such borrowing by the issue and sale of its general obligation bonds, notes or other certificates of indebtedness in the manner prescribed in Sections 31 through 37 of Article 23A of the Annotated Code of Maryland (titled "Municipal Corporations," sub-title "Creation of Municipal Public Debt"). Notwithstanding the provisions of this subsection, the Council may authorize a private negotiated sale if in the best interest of the City. Any proposed new indebtedness that is greater than five percent (5%) of the revenue budgeted for that year shall be subject to a public hearing, and the Council shall not take final action on the proposed indebtedness less than fourteen (14) days following the hearing.

In addition to the aforementioned provisions of the City Code and City Charter, the following guidelines will be followed in managing the City's Debt:

1. Debt management will provide for the protection of bond rating, the maintenance of adequate debt service reserves, compliance with debt covenant provisions and appropriate disclosure to investors, underwriters and rating agencies.
2. The terms of any long-term financing related to the capital construction and improvements or the acquisition of major equipment shall not exceed the useful life of the assets being acquired by the debt issue.
3. All debt issuance shall comply with Federal, State and City charter requirements and adhere to Federal arbitrage regulations.
4. The City shall periodically monitor the performance of various outstanding bond indebtedness issues and utilize this process in the administration of the City's outstanding indebtedness and in the determination of funding available for future operations.
5. The City will follow a policy of full disclosure on every financial report and bond prospectus ("Official Statement").

6. Accompanying each debt issue will be an assessment of the City's capacity to repay the debt. The assessment will address the effects on the current operating budget, as well as identify the resources that will be utilized to repay the debt.
7. The City will try to maintain the average maturity of general obligation bonds at or below twenty years.
8. The City will generally conduct financing on a competitive basis. However, negotiated financings may be used due to market volatility or the use of an unusual or complex financing or security structure.
9. Neither Maryland State law nor the City Charter mandates a limit on municipal debt. However, the City will strive to maintain its net tax-supported debt at a level not to exceed one percent (1%) of the assessed valuation of taxable property within the City.
10. The City will strive to ensure that its net tax-supported debt per capita does not exceed \$700. The City will strive to ensure that the combined total of its direct net bonded debt and its attributed share of overlapping debt issued by Montgomery County does not exceed \$2,000 per capita.
11. The City will strive to maintain its annual net tax-supported debt service costs at a level less than 15 percent of the combined expenditure budgets for the City's General and Special Revenue Funds.
12. Periodic reviews of all outstanding debt will be undertaken to determine refinancing opportunities. Refinancings will be considered when there is a net economic benefit of at least five percent of the refunded debt, when there is a need to modernize covenants that are adversely affecting the City's financial position or operations, or when the City wants to reduce the principal debt outstanding in order to achieve future debt service savings.

In determining the type of debt to be issued, the following factors will be considered:

- The timing of the stream of benefits generated by the project
- The effect of the proposed bond issue on the City's ability to finance future projects of equal or higher priority
- The true interest cost of each type of financing
- The impact on the City's overall financial condition

The City is authorized to issue Direct Debt in the form of General Obligation Bonds payable from ad valorem taxes or by using Lease-Purchase Financing. Revenue Debt, payable from specific pledged revenues, can also be issued when financing relates to a revenue-generating project. Other types of financing could be obtained by using State Loan Funds and bond issuances. The City is prohibited from financing via the use of derivatives.

Federal arbitrage restrictions prohibit an issuer from retaining arbitrage profits when investing bond proceeds at a yield that exceeds the yield on the bonds. The City will calculate (or contract with a reputable firm to calculate) any arbitrage liability and rebate the liability to the United States Treasury, in accordance with federal guidelines.

Bond proceeds should be invested in accordance with the City's investment policies which incorporates the limitations on the types of investments in accordance with Maryland law.

At the discretion of the City Council, the City may retain services of a financial advisor to assist the City in identifying capital financing alternatives and in planning its debt program. The financial advisor's role will vary depending on whether bonds are issued through a competitive or negotiated method of sale. The financial advisor shall have no affiliation with the underwriting of a particular issue of the City.