CITY OF CLAWSON
DEBT MANAGEMENT POLICY

A. Contents

B. Scope

This policy covers all City of Clawson borrowings including: All City of Clawson Funds and all debt which will require the commitment of future funds.

C. Purpose

The City recognizes that borrowing money is at times an essential and cost effective method of alternative financing needed to fund projects in carrying out its mission.

The City recognizes the importance of managing the level of indebtedness in a manner which is both responsive to public trust and consistent with the City's principles of sound financial management.

Debt management helps accurately evaluate the impact of each funding decision on the City's debt position and credit quality. Sound debt issuance and management enhances credit quality and improves access to credit markets by demonstrating responsible management to credit analysts, underwriters, and investors.

D. References

1. Comprehensive Annual Financial Report (CAFR)

2. City of Clawson Charter

3. Debt Policy Handbook, Municipal Treasurer's Association of the United States & Canada

4. A Debt Management Handbook for Small Cities and Other Governmental Units, Municipal Finance Officers Association

5. Structuring and Sizing the Bond Issue, Government Finance Officers Association (GFOA) An Elected Officials Guide to Debt Issuance, J.B. Kurish and Patricia Tigue, GFOA Municipal Bonds: Planning, Sale, and Administration, Lennox L. Moak, GFOA

6. Evaluating Financial Condition, A Handbook for Local Government, Sanford Groves and Maureen Valente, International City/County Management Association (ICMA)

E. Definitions

1. Agreement Among Underwriters – The contract establishing the underwriting team formed (AAU) to market the bonds. The AAU will include provisions covering the liability of each team member, a description of order types, order priority, pricing of the bonds and requirements respecting a public offering. The AAU may contain a variety of other matters relating to trade practice and applicable rules of the Municipal Securities Rulemaking Board.

2. Bond – A written promise to pay a specified sum of money, called the face value (par value) or principal amount, at a specified date or dates in the future called the maturity date(s), together with periodic interest at a specified rate. The difference between a note and a bond is that the latter runs for a longer period of time and requires greater legal formality.

3. Bond Anticipation Notes – Short-term interest-bearing notes issued in anticipation (BANS) of bonds to be issued at a latter date. The notes are retired from the proceeds of the bond issue to which they are related.

4. Bond Counsel – An attorney (or firm) retained by the issuer of securities to give a legal opinion concerning the validity of the securities. The bond counsel's opinion usually addresses the subject of tax exemption. Bond counsel may prepare, or review and advise the issuer regarding authorizing resolutions or ordinances, official statements, validation proceedings and litigation.

5. Bond Insurance - Default insurance guaranteeing future debt service payments if the source of repayment falls short of the required payment to bond holders.

6. Bond Purchase Agreement – The contract between the underwriting team and the City setting forth the final terms, prices and conditions upon which the syndicate purchases the bonds from the City for sale to investors.

7. Bond Rating – A statement to investors of the investment quality of bonds. It is based on the economic, financial, and managerial condition of an agency.

8. Co-Manager – All underwriting team members not performing in the capacity of Senior Manager.

9. Competitive Sale – A sale of bonds or other evidences of indebtedness to the bidder offering the best bid in open competitive bidding.

10. Cost of Issuance – Legal and administrative costs incurred for completing the required documents on the bond issuance. Costs include such items as Bond Counsel and Financial Advisory fees, Rating Agency fees, Registrar, Paying Agent and Escrow Agent fees, printing costs for the preliminary and final official statements, verification and auditing service fees.

11. Debt to Capital – A financial measurement of the total amount of debt Asset Ratio outstanding as a percentage of the net investment in capital assets.

12. Financial Advisor – A consultant to state and local governments on matters related to the issuance of securities.

13. Full-Faith-and-Credit – A pledge of the ad valorem taxing power of the City for the payment of debt obligations.

14. General Obligation Bonds – A bond for which the payment is secured by the District's full faith and credit.

15. Pay-as-You-Go – A fiscal policy which finances capital outlays from current revenues rather than by borrowing.

16. Negotiated Sale – A sale of bonds in which the terms of the sale are determined through negotiation between the City and the investment banking firms or underwriters.

17. Net Debt Per Capita – A ratio of the net amount of debt outstanding (gross outstanding debt less debt service revenues) in comparison to the total population within the District's jurisdiction.

18. Revenue Bonds – Bonds for which principal and interest are payable from revenues other than ad valorem taxes.

19. Tax Anticipation Notes – Interest bearing notes issued in anticipation of collection (TANS) of taxes usually retirable from the proceeds of the tax levy whose collection they anticipate.

20. Underwriters Discount – The fee received by the underwriting team for the marketing and sale of bonds to the investment community.

F. History

At any point in time the City of Clawson has available for review all of the outstanding indebtedness which is prepared by our Financial Advisor. As part of the process of issuing any new debt, the Financial Advisor will list all indebtedness at that time with all relevant rating information and type of indebtedness.

Previous City indebtedness has primarily been in the issuance of bonds to finance infrastructure needs. The City has also utilized installment financing of equipment purchases and building improvements. Generally, the source of repayment for the General Obligation bonds is a separate tax levy. The City has also issued State Revolving Fund debt that is paid from revenues in the Water and Sewer Fund.

G. Statement of Policy

The City shall:

1. Exhibit purposeful restraint in incurring debt.

2. Shall strive to achieve and maintain the excellent bond rating of A+ or better for its obligation, which facilitates favorable borrowing costs.

3. Follow a policy of full disclosure in all financial reports and official statements issued for indebtedness.

Long Term Debt: Long Term borrowing shall not exceed the estimated life of the capital assets financed and shall not finance current operations or normal maintenance. Issuance of long term debt may be through a Competitive or Negotiated Sale. The Financial Advisor will review all proposed debt issuance and recommend the option which is determined to be in the best interest of the City at the time of issuance. Negotiated sales will be permitted if there is evidence of volatile market conditions, complex security features, or another overriding factor.

Short Term Debt: Short term borrowing may be used for temporary funding of operational cash flow needs. Short term debt, such as lines of credit with financial institutions, tax anticipation notes or bond anticipation notes, may be used when it provides immediate financing and an interest cost advantage, or the advantage to delay long term debt until market conditions are more favorable.

Refinanced Debt: In determining the financial feasibility of refinancing outstanding City indebtedness, the net present value of the financial savings must equal or be greater than the costs incurred in completing the refinancing. Net present value is the value of future savings (i.e. $200,000 per year for 20 years) less the cost of financing discounted to what that value/savings would be in worth in today's dollars. The cost of bond financing includes the Underwriter's discount, bond insurance and other associated costs of issuance.

Each year, in conjunction with its annual budget, the City shall adopt a five-year capital spending plan covering the subsequent five fiscal years. The plan will recommend specific debt requirements on a five-year basis to facilitate better short-term decisions in light of other priorities that may arise and to examine the longer-range implications and effects of debt issuance. Debt plans and targets shall be reviewed annually in conjunction with the capital project plan.

In an effort to conserve debt capacity, the City shall borrow only when necessary, and weigh pay-as-you-go capital financing to the extent practical. Financing alternatives other than debt financing shall be explored. Funding priorities should determine the validity of funded projects. Long-term borrowing shall not be used to finance current operations or normal maintenance.

Ensuring adequate funding sources rests with the City Manager. This will be accomplished through the City Manager's presentation of the City's annual budget to the City Council. Upon City Council approval of an annual budget in which borrowing has been determined to be a viable funding source, the City Finance Director is responsible for implementing a debt management plan. The Finance Director will also be responsible for completing all information necessary for the Financial Advisor to submit the required Annual Disclosure documentation. In the absence of the Finance Director the City Manager or delegate will be responsible for all Annual Disclosure information presented to the Financial Advisor.

The Finance Director, Financial Advisor, and Bond Attorney will coordinate their activities to ensure that all securities are issued in the most efficient and cost-effective manner.

In the debt issuance process, the City will often retain the services of outside professionals to relieve the administrative burden accompanying the issuance of securities. All professional service providers selected in connection with the City's capital planning and debt issuance program will be selected through a review process completed by the Finance Director to ensure the selection of service providers that offer the City the best combination of expertise and price.

H. Delegation of Authority

Delegation of Authority		Type of Authority
From	To	
City Council	City Manager	Authority to maintain adequate funding sources or credit facilities to meet the City's current long term financial obligations.
City Manager	Finance Director or delegate	Authority to ensure that all indebtedness is repaid within the legal time frames.
City Council	Finance Director or delegate	Authority to develop and maintain procedures to administer this policy.