CITY OF CEDAR RAPIDS
DEBT MANAGEMENT POLICIES

The following policies are enacted in an effort to standardize and rationalize the issuance and management of debt by the City of Cedar Rapids. The objective is to establish conditions for the use of debt and to create procedures and policies that minimize the City's debt service and issuance costs, retain the highest practical credit rating, and maintain full and complete financial disclosure and reporting and federal tax compliance. The policies apply to all general obligation debt issued by the City of Cedar Rapids, including leases, debt guaranteed by the City, and any other forms of taxable and tax-exempt f indebtedness, Including Build America or other tax credit bonds.

Regular, updated debt policies can be an important tool to ensure the use of the City's resources to meet its commitments to provide needed services to the citizens of Cedar Rapids and to maintain sound financial management practices. These policies are therefore guidelines for general use, and allow for exceptions in extraordinary conditions.

These policies have been adopted by the City Council by resolution. The Debt Management Policies of the City can be adjusted at any time by resolution of the City Council.

CREDITWORTHINESS OBJECTIVES

Policy 1. Credit Ratings:

The City of Cedar Rapids seeks to maintain the highest possible credit ratings for all categories of short- and long-term General Obligation and revenue debt that can be achieved without compromising the delivery of basic City services and the achievement of adopted City policy objectives.

The City recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Nevertheless, the City is committed to ensuring that actions within their control are prudent.

Policy 2. Financial Disclosure:

The City is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, City departments and agencies, other levels of government, and the general public to share comprehensible and accurate financial information. The City is dedicated to meeting secondary disclosure requirements on a timely and comprehensive basis, as promulgated by the Securities Exchange Commission.

The Official Statements accompanying debt issues, Comprehensive Annual Financial Reports, and Continuous Disclosure Statements will meet (at a minimum), the standards articulated by the Municipal Standards Rulemaking Board (MRSB), the Government Accounting Standards Board (GASB), the National Federation of Municipal Analysts, the Securities and Exchange Commission (SEC), Generally Accepted Accounting Principles (GAAP), and the Internal Revenue Service. The Treasury Division shall be responsible for ongoing debt disclosure to established national information repositories and for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies.

Policy 3. Capital Planning:

To enhance creditworthiness and prudent financial management, the City of Cedar Rapids is committed to systematic capital planning, intergovernmental cooperation and coordination, and long-term financial planning. Evidence of this commitment to systematic capital planning will be demonstrated through adoption and periodic adjustment of the ten year Capital Improvement Plan (CIP).

Policy 4. Debt Limits:

The City has set a target for the City's general obligation outstanding debt at 80%, (except as a result of extenuating circumstances such as disasters) of the limit prescribed by State statute, which is currently five percent (5%) of actual value of property within the city. These levels are consistent with the City's creditworthiness objectives.

PURPOSES AND USES OF DEBT

Policy 5. Capital Financing:

The City normally relies on internally generated funds and/or grants and contributions from other governments to finance its capital needs. Debt will be issued for a capital project only when it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries or users, or in the case of an emergency capital need. Debt shall not fund operating expenses with the only exception related to disaster recovery for the 2008 flood, where certain disaster recovery bonds may be sold to fund qualifying expenses as Build America Bonds or Recovery Zone Bonds. Bond proceeds should be limited to financing capital expenditures such as the costs of planning, design, land acquisition, buildings, permanent structures, attached fixtures or equipment, and movable pieces of equipment, such as fire engines, or other costs as permitted by law. Acceptable uses of bond proceeds can be viewed as items which can be capitalized. Capitalized interest is an eligible item for bonding. Utility revenue bond proceeds may be used to establish a debt service reserve as allowed by federal and State law.
Non-capital furnishings and supplies will not be financed from bond proceeds. Refunding bond issues designed to restructure currently outstanding debt are an acceptable use of bonds proceeds. The City will not use short-term borrowing to finance operating needs except in the case of an extreme financial emergency which is beyond its control or reasonable ability to forecast. Recognizing that bond issuance costs add to the total interest costs of financing, bond financing should not be used if the aggregate cost of projects to be financed by the bond issue does not exceed $1,000, 000.

Policy 6. Asset Life:

The City will consider long-term financing for the acquisition, maintenance, replacement, or expansion of physical assets (including land) only if they have a useful life of at least three years. Debt will be used only to finance capital projects and equipment, except in case of emergency. City debt will not be issued for periods exceeding the useful life or average useful lives of the project or projects to be financed.

DEBT STANDARDS AND STRUCTURE

Policy 7. Length of Debt:

Debt will be structured for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users. General obligation bonds will adhere to State Code as to length of debt.

Policy 8. Debt Structure:

Debt will be structured to achieve the lowest possible net cost to the City given market conditions, the urgency of the capital project, the type of debt being issued, and the nature and type of repayment source. Moreover, to the extent possible, the City will design the repayment of its overall debt so as to rapidly recapture its credit capacity for future use. The City shall strive to repay from 30 to 60 percent of the principal amount of its general obligation debt within five years and at least 60 percent within ten years. The City shall strive to repay from 40 to 50 percent of the principal amount of its revenue debt within ten years.

Policy 9. Decision Analysis

Whenever the City is contemplating a possible bond issue, information will be developed concerning the following four categories commonly used by rating agencies assessing the City's creditworthiness. The subcategories are representative of the types of items to be considered. The information below will be presented by the Treasury Operations Manager to the City Manager and City Council.

Debt Analysis
- Debt capacity analysis
- Purpose for which debt is issued
- Debt structure
- Debt burden
- Debt history and trends
- Adequacy of debt and capital planning

The Finance Director will present the following information to the City Manager and City Council

Financial Analysis
- Stability, diversity, and growth rates of tax or other revenue sources
- Trend in assessed valuation and collections
- Current budget trends

- Appraisal of past revenue and expenditure trends
- History and long-term trends of revenues and expenditures
- Evidences of financial planning
- Adherence to generally accepted accounting principles
- Audit results
- Fund balance status and trends in operating and debt funds
- Financial monitoring systems and capabilities
- Cash flow projections

Governmental and Administrative Analysis
- Government organization structure
- Location of financial responsibilities and degree of control
- Adequacy of basic service provision
- Intergovernmental cooperation/ conflict and extent of duplication
- Overall city planning efforts

Economic Analysis
- Geographic and location advantages
- Population and demographic characteristics
- Wealth indicators
- Housing characteristics
- Level of new construction
- Types of employment, industry, and occupation
- Evidences of industrial decline
- Trend of the economy

Policy 10. Backloading:

The City will seek to structure its total debt with level principal and interest payments over the life of the debt. "Backloading" of costs will be considered only when: natural disasters or extraordinary or unanticipated external factors make the short-term cost of the debt prohibitive; when the benefits derived from the debt issuance can be clearly demonstrated to be greater in the future than in the present; when such structuring is beneficial to the City's overall amortization schedule; or when such structuring will allow debt service to more closely match project revenues during the early years of the operation.

Policy 11. Refundings:

Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding or the refunding is essential in order to release restrictive bond covenants, which affect the operations and management of the City.

In general, advance refundings for economic savings will be undertaken when a net present value savings of at least five percent (5%) of the refunded debt can be achieved. Current refundings, which produce a new present value savings of less than five percent, will be considered on a case-by-case basis taking into consideration bond covenants and general conditions. Refundings with negative savings will not be considered unless there is a compelling public policy objective.

Policy 12. Credit Enhancements:

Credit enhancement (letters of credit, bond insurance, etc.) may be used, but only when the net debt service on the bonds is reduced by more than the costs of the enhancement.

Policy 13. Investment of Bond Proceeds:

All general obligation and revenue bond proceeds shall be invested separate from the City's consolidated cash pool unless otherwise specified by the bond legislation. Investments will be consistent with those authorized by state law and the City's investment policies in order to maintain safety and liquidity of the funds.

Policy 14. Costs and Fees:

All costs and fees related to issuance of bonds will be paid out of bond proceeds and allocated across all projects receiving bond proceeds from the issue. The Finance Treasury Division (Treasury Division) will invoice a bond issuance staff fee on all revenue and general obligation debt issued by the City. Where appropriate, this fee will be invoiced against the bond proceeds after the bond closing. The fee will be credited to the Finance operating budget.

Policy 15. Competitive Sale:

In general, City debt will be issued through a competitive bidding process. Bids will be awarded on a true interest cost basis (TIC), providing other bidding requirements are satisfied

Policy 16. Negotiated Sale:

Negotiated sales of debt will be considered in extraordinary circumstances when the complexity of the issue requires specialized expertise, when the negotiated sale would result in substantial savings in time or money; or when market conditions or City credit are unusually volatile or uncertain.

Policy 17. Bond Counsel:

The City will retain external bond counsel for all debt issues. All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the debt, stating that the City has met all State constitutional and statutory requirements necessary for issuance, and determining the debt's federal income tax status. The bond counsel retained must have comprehensive municipal debt experience and a thorough understanding of Iowa law as it relates to the issuance of municipal debt.

Policy 18. Financial Advisor:

The City will retain an external independent financial advisor to be selected through a competitive bid process administered by the Treasury Division. The financial advisor shall not have a relationship with any underwriters. The utilization of the financial advisor for particular bond sales will be at the discretion of the Finance Department on a case-by-case basis and pursuant to the financial advisory services contract. The major criteria in the selection process for a financial advisor will be comprehensive municipal debt experience, experience with diverse financial structuring and pricing of municipal securities, as well as overall cost of services.

Policy 19. Compensation for Services:

Compensation for bond counsel, underwriter's counsel, financial advisors, and other financial services will be as economical as possible and consistent with industry standards for the desired qualification levels. These costs will be tracked by the Treasury Division.

Policy 20. RFP Process:

The Treasury Operations Manager shall make a recommendation to the City Council for the selection of bond counsel and financial advisor. The determination will be made following an independent review of competitive bids, responses to requests for proposals (RFPs) or requests for qualifications (RFQs). The bids, RFPs, and RFQs will be reviewed by at least three City finance professionals or City appointed members

Policy 21. Other Service Providers:

The Treasury Operations Manager shall have the authority to periodically select other service providers (e.g., escrow agents, verification agents, trustees, arbitrage consultants, etc.) as necessary to meet legal requirements and minimize net City debt costs. These services can include debt restructuring services and security or escrow purchases. The Treasury Operations Manager may select firm(s) to provide such financial services related to debt without a RFP or RFQ, consistent with City and State legal requirements, subject to approval by resolution.

Policy 22. Arbitrage Compliance:

The Treasury Division shall maintain a system of record keeping reporting and compliance procedures, with respect to all federal tax requirements which are currently, or may become, applicable throughout the lifetime of all tax-exempt, Build America, or other tax credit bonds in accordance with the Post Issuance Compliance Policy adopted by the City Council on March 23, 2010.

Federal tax compliance, record-keeping, reporting and compliance procedures shall include, but shall not be limited to: (1) post-issuance compliance (including proper use of proceeds, timely expenditure of proceeds, proper use of bond finance property, yield restriction and rebate, and timely return filing); (2) proper maintenance of records to support federal tax compliance; (3) investments and arbitrage compliance; (4) expenditures and assets; (5) private business use; and (6) designation of primary responsibilities for federal tax compliance of all bond financings.

Policy 23. Financing Proposals:

Any capital financing proposal to a City department involving pledge or other extension of the City's credit through sale of securities, execution of loans or leases, marketing guarantees, or otherwise involving directly or indirectly the lending or pledging of the City's credit, shall be referred to the Treasury Division for review. The Treasury Division will determine a recommendation to be forwarded to the City Council for approval.

Policy 24. CIP Mini Fund:

The City will maintain a Capital Improvement Mini Fund at a minimum level of $1,000,000 from which the investment earnings will be allocated annually to fund capital improvement projects as determined by the City Council. Additional funding may be available on an annual basis as a result of the targeted fund balance process.

Policy 25. Communication and Disclosure

Significant financial reports affecting or commenting on the City will be forwarded to the rating agencies. Each bond prospectus will follow the disclosure guidelines of the Government Finance Officers Association of the U. S. & Canada. The City will attempt to develop coordinated communication processes with all other jurisdictions with which it shares a common property tax base concerning collective plans for future debt issues. Reciprocally, shared information on debt plans including amounts, purposes, timing, and types of debt would aid each jurisdiction in its debt planning decisions.

Policy 26. Revenue Bonded Debt

It is a long-term goal that each utility or enterprise will ensure future capital financing needs are met by using a combination of current operating revenues, SRF (State Revolving Fund) and revenue bond financing. Therefore a goal is established that surplus operating revenues in excess of 25% of next fiscal year budget be allocated to the depreciation fund or be used to offset capital improvement project costs. It is City policy that each utility or enterprise should provide adequate debt service coverage of at least 1.25 times the annual debt service costs. A specific factor is established by City Council that projected operating revenues in excess of operating expenses less capital expenditures, depreciation and amortization in the operating fund should be at least 1.25 times the annual debt service costs. An example of the debt coverage calculation is on the following page. Utility revenue bond proceeds may be used to establish a debt service reserve as allowed by the IRS.

Debt Coverage Example:

Operating Revenues	$19,903,166
Operating Investment Income	751,270
Total Operating Revenue	$20,654,436
Operating Expenses	$15,644,355
Less: Depreciation and Amortization	1,155,004
Net Expenses	$ 14,489,351
Net Revenue Available for Debt Service	$ 6,165,085 (1*)
Principal	$ 1,520,000
Interest	1,963,116
Total Debt Service	$ 3,483,116 (2*)
Debt Coverage Ratio (1* divided by 2*)	1.77

Policy 27. Short Term Financing/Capital Lease Debt

Short-term financing or capital lease debt will be considered to finance certain equipment and rolling stock purchases from time-to-time. Adequate funds for the repayment of principal and interest must be included in the requesting department's approved budget. The term of short-term financing will be limited to the usual useful life period of the vehicle or equipment, but in no case will exceed ten years. Departments requesting capital financing must have an approved budget appropriation. Departments shall submit documentation for approved purchases to the Finance Department each year within sixty days after the annual budget is adopted. The Finance Department will consolidate all requests and may solicit competitive or negotiated proposals for capital financing to insure the lowest possible interest costs.

Policy 28. Conduit Financings

The city may act as a conduit issuer and issue municipal securities to raise capital for revenue-generating projects where the funds generated are used by a third party (known as the "conduit borrower") to make payments to investors. The conduit financing is typically backed by either the conduit borrower's credit or funds pledged toward the project by outside investors. If a project fails and the security goes into default, it falls to the conduit borrower's financial obligation, not the conduit issuer. The city is not responsible for repayment of these bonds. The city will charge a fee to cover all costs (direct and staff time) associated with the issuance of these bonds.

Policy 29. Assessment Bonds

Special assessment bonds are bonds whose proceeds sponsor a certain, defined project. Property taxes paying for the bond will be levied only on those directly benefiting from the project. Special assessment bonds are not backed by the full faith and credit of the City and as such carry more risk than most general obligation bonds. If approved by the City Council, special assessment bonds may be issued that do have the full faith and credit of the City and these will be called "general obligation special assessment bonds."

Except as otherwise provided by law, the rate of interest payable on unpaid balances of special assessments levied against benefited properties shall not exceed the maximum rate in effect at the time of adoption of the final assessment schedule, as established by rule pursuant to section 74A.6, subsection 2 of the State of Iowa Code.