City Debt

City outstanding debt as of June 30, 2017 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Governmental</th>
<th>Enterprise</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Obligation Bonds</td>
<td>$151,444,984</td>
<td>$124,940,016</td>
<td>$276,385,000</td>
</tr>
<tr>
<td>Revenue Bonds</td>
<td>$</td>
<td>$107,705,000</td>
<td>$107,705,000</td>
</tr>
<tr>
<td>State Revolving Fund (SRF)</td>
<td>$</td>
<td>$40,066,000</td>
<td>$40,066,000</td>
</tr>
<tr>
<td></td>
<td>$151,444,984</td>
<td>$272,711,016</td>
<td>$424,156,000</td>
</tr>
</tbody>
</table>

As of June 30, 2017, the general obligation debt issued by the City did not exceed its legal debt margin. Below is the calculation used to determine the legal debt margin:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total estimated actual valuation - real property</td>
<td>$9,973,793,843</td>
</tr>
<tr>
<td>Debt limit - 5% of total valuation</td>
<td>498,689,692</td>
</tr>
<tr>
<td>Debt applicable to debt limit:</td>
<td></td>
</tr>
<tr>
<td>General obligation bonded debt outstanding</td>
<td>276,385,000</td>
</tr>
<tr>
<td>Legal debt margin - Available</td>
<td>$222,304,692</td>
</tr>
</tbody>
</table>
I. **Debt Management**

The Finance Department is responsible for the City’s Municipal debt program. These duties include planning, budgeting, and the issuance of the City’s Municipal Bonds and Notes. After issuance of the debt, the City maintains all bond records, budgets revenues and expenditures, creates all general ledger entries, pays the principal and interest payments, provides ongoing reporting to the market and ensures regulatory compliance.

**Bond Issuance**

A typical bond issuance process will begin 15 months prior to the sale date. Below is an example of a bond timeline with an example sale date of June 2016.

**March 2015**

Council - Resolution of Reimbursement

- This document authorizes reimbursement from the bond sale proceeds for all expenses that took place no earlier than 60 days prior to this resolution’s passage date up to the date of sale. It must list all the funds that will contain projects that will be included in the next bond sale in which money could be spent prior to the sale. It must also list the dollar amounts that could be spent in each fund.

**October 2015**

Determine the issuance size to be approved by the budget process, work with financial advisors to create estimated bond structure for the repayment schedules, funding sources and determine the future debt levy.

**February 2016**

Finalize the bond structure. Update the cash flow documents for Water, Sewer and WPC.

**March 2016**

Council - Set the public hearings

Begin writing the Official Statement.

- The Official Statement is a prospectus provided to bond purchasers in the market that discusses the City’s financial strength and provides a level of comfort that the City has the ability to pay back its debt.

**Early April 2016**

Council - Hold the public hearings.

Give the Credit Presentation to Moodys and requests a rating.

- The credit rating will review not only the new bond issuance but also all of the City’s existing debt.

**Mid to Late April 2016**

Council - Set sale date, approve the preliminary official statement and electronic bidding process.
Early May 2016 (Sale Day)
Council – Present the results of the sale and award the bonds to the best bid.
- Bids will be accepted in the morning and the City’s financial advisor in preparation of the
council meeting will analyze the bids.

Late May 2016
Council – Approve the Bond Documents and authorize the issuance
- File the tax certificate and authorizing resolution documents with the County to request
  a tax be levied for the repayment of the bonds.
- Send the Bond Certificates to CEDE to be registered. CEDE is a company hired by the
  City to distribute bond principal and interest payments to individual bondholders.
- File a bond registration form with the IRS
- Send all signed bond documents to City’s Bond Attorney for distribution to the
  purchaser and the creation of a certified bond record.

June 2016
Purchaser delivers the funds to the City’s bank account and treasury records the receipt in
the general ledger spreading the proceeds to individual projects.
CITY OF CEDAR RAPIDS
DEBT MANAGEMENT POLICY

The following policy is 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 guidelines that minimize the City’s debt service and issuance costs, retain the highest practical credit rating, and maintain full and complete financial disclosure, reporting and federal tax compliance. This policy applies to all general obligation and revenue debt issued by the City of Cedar Rapids, including leases, debt guaranteed by the City, and any other forms of taxable and tax-exempt indebtedness.

A regularly updated debt policy can be an important tool to ensure the proper 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. This policy therefore contains guidelines for general use, and allows for exceptions in extraordinary conditions.

This policy has been adopted by the City Council by resolution. The Debt Management Policy of the City can be adjusted at any time by resolution of the City Council.

CREDITTWORTHINESS OBJECTIVES

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 may 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.

Financial Disclosure:

The City is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, regulatory agencies, institutional and individual investors, City departments and divisions, 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 Continuing Disclosure Reports will meet (at a minimum), the standards articulated by the
Municipal Standards Rulemaking Board (MRSB), the Securities and Exchange Commission (SEC), the Government Accounting Standards Board (GASB), Generally Accepted Accounting Principles (GAAP), and the Internal Revenue Service. The Finance Department (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.

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 five-year Capital Improvement Plan (CIP).

Debt Limits:

The City has set a target for the City’s general obligation outstanding debt at 80%, 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

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, where certain disaster recovery bonds may be sold to fund qualifying expenses as approved by State Code. Bond proceeds should be limited to financing capital expenditures such as the costs of planning, design, 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 may 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.
Asset Life:

The City will consider long-term financing for the acquisition, maintenance, replacement, or expansion of physical assets 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

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 the debt amortization.

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.

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.

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

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
- 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

**Back Loading:**

The City will seek to structure its total debt with level principal and interest payments over the life of the debt. “Back Loading” of costs will be considered only when: natural disasters, 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 future years of the operation.

**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.
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.

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.

Costs and Fees:

All costs and fees related to issuance of bonds will be paid out of bond proceeds from the issue. The Finance Department (Treasury Division) will charge a bond issuance staff fee on all revenue and general obligation debt issued by the City. The fee will be credited to the Finance operating budget.

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.

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.

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 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.

Financial Advisor:

The City will retain an external independent financial advisor to be selected through a competitive bid process administered by the Finance Department (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.

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 Finance Department (Treasury Division).

RFP Process:

The Finance Department 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).

Other Service Providers:

The Finance Director 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 Finance Director 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.

Arbitrage Compliance:

The Finance Department (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, or other tax credit bonds in accordance with the Post Issuance Compliance Policy adopted by the City Council.

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) proceed investment and arbitrage compliance; (4) revenues, expenditures and assets; and (5) private business use.

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 Finance Department (Treasury Division) for review. The Finance Department will determine a recommendation to be forwarded to the City Council for approval.

**Communication and Disclosure**

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 shall aid each jurisdiction in its debt planning decisions.

The City shall make available the Comprehensive Annual Financial Report (CAFR), Continuing Disclosure Report, current Official Statements, credit rating and outstanding debt information on the City's website.

**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 has been established that surplus operating revenues in excess of 25% of next fiscal year budget shall 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 outlined below. Utility revenue bond proceeds may be used to establish a debt service reserve as allowed by the IRS.

**Debt Coverage Example:**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues</td>
<td>$19,903,166</td>
</tr>
<tr>
<td>Operating Investment Income</td>
<td>751,270</td>
</tr>
<tr>
<td><strong>Total Operating Revenue</strong></td>
<td><strong>$20,654,436</strong></td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>$15,644,355</td>
</tr>
<tr>
<td>Less: Depreciation and Amortization</td>
<td>1,155,004</td>
</tr>
<tr>
<td><strong>Net Expenses</strong></td>
<td><strong>$14,489,351</strong></td>
</tr>
<tr>
<td><strong>Net Revenue Available for Debt Service</strong></td>
<td><em><em>$ 6,165,085 (1</em>)</em>*</td>
</tr>
<tr>
<td>Principal</td>
<td>$ 1,520,000</td>
</tr>
<tr>
<td>Interest</td>
<td>1,963,116</td>
</tr>
<tr>
<td><strong>Total Debt Service</strong></td>
<td><em><em>$ 3,483,116 (2</em>)</em>*</td>
</tr>
<tr>
<td><em><em>Debt Coverage Ratio (1</em> divided by 2</em>)**</td>
<td><strong>1.77</strong></td>
</tr>
</tbody>
</table>
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 expected 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.

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. The conduit borrower will provide the City with information prior to the issuance as well as annually to ensure the City fulfills its due diligence requirements as a conduit issuer.

Assessment Bonds

Special assessment bonds are bonds whose proceeds sponsor a certain, defined project. Property taxes paying for the bonds 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.