Debt Management Policy

City of Mount Vernon

New York

City Council

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I. SCOPE

Long-term debt is an effective way to finance capital improvements by matching the term of the debt with the useful life of the asset being financed. Properly managed debt provides flexibility in current and future operating budgets and provides the City of Mount Vernon ("City") with the long-term assets required to deliver services or other resources to the public. The City recognizes that effective debt management practices require a comprehensive Debt Management Policy ("Policy") that details the use of capital and capital debt to support the services provided to its residents.

II. PURPOSE

The Policy is adopted by the City Council upon the recommendation of the Mayor, City Comptroller and the City's Municipal Advisor. It seeks to position the City's debt plan amongst the best practices in municipal finance, as well as to underscore the City's commitment to earn and maintain the highest credit rating possible while appropriately allocating its resources to the programs and services provided by the City.

III. OUTSTANDING AND MATURING OBLIGATIONS

Nothing in this Policy shall be deemed to affect or impair any outstanding obligations of the City or any obligations issued to renew such outstanding obligations. Failure to comply with any goal or limit established by this Policy shall not of itself be deemed to invalidate any obligations.

IV. SHORT-TERM OPERATIONAL BORROWINGS

The City is authorized under the New York State Local Finance Law ("LFL") to borrow in anticipation of the receipt of taxes or other forms of revenue (primarily in the form of State or Federal aid). Such borrowings take the form of short-term notes and provide working capital to balance timing differences between revenue and expenditures. Short-term operational borrowings include tax anticipation notes, revenue anticipation notes, budget notes and deficiency notes. Generally, tax anticipation notes shall be fully paid on or before December 31st of each year. Revenue anticipation notes shall be paid in accordance with limitations imposed under the LFL.

The City shall not use its short-term borrowings to finance operating needs, except in the case of financial necessity, as determined by the City Comptroller, with approval by the Mayor and City Council.

V. PERIOD OF PROBABLE USEFULNESS

The LFL assigns a period of probable usefulness ("PPU") to each capital purpose that can be financed. The PPU establishes the maximum period of time over which assets may be financed.

The City Comptroller shall ensure that the final maturity date for any long-term debt will not exceed the expected life of the capital improvement so financed, however, for indebtedness contracted for any two or more objects or purposes, for which the PPUs are not all the same, such indebtedness may be contracted for a period no longer than the weighted average period of probable usefulness of the objects or purposes being financed.

VI. METHODS OF DEBT STRUCTURING

The LFL permits bonds to be amortized using the "50 Percent Rule" or a "level" or "declining" debt structure.

Definitions.

The 50% Rule: Under the "50% Rule" no annual principal payment on bonds may be more than 50% larger than the smallest, prior principal payment.

Level Debt Structure. In a "level" debt structure, annual principal and interest payments remain substantially level for the term of the debt.

Declining Debt Structure. In a "declining debt" structure, principal and interest payments decline from year to year over the term of the debt.

Municipal Lease. A "municipal lease" is a financing method in which a municipal jurisdiction acquires equipment or facilities through a lease agreement, with the intent of eventual ownership, and where the interest income is exempt from federal income taxes.

The determination of whether annual debt service is substantially level or declining shall not take into account the first twelve months after the debt's issuance to the extent that no provision is made for the payment of principal during such period. For substantially level or declining annual debt service, the aggregate amount of debt service in each year shall not exceed the lowest aggregate debt service in any prior year by more than the greater of 5% or ten thousand ($10,000) dollars.

Under any debt structure, debt must begin amortizing no later than 24 months from the issue date of the bonds or, if the bonds are issued to take out bond anticipation notes, no later than 24 months from the issue date of the bond anticipation notes. However, refunding bonds are required to begin amortization either by the first maturity of the refunded bonds or 24 months from the issue date of the refunding bonds, whichever is the earliest.

The City shall select the amortization method that produces debt service payments compatible with the City's needs and ability to repay its existing and forecasted debt obligations. The City Comptroller shall confer with the City's Municipal Advisor and/or Bond Counsel relating to the structuring of debt obligations.

When appropriate, by recommendation of the City Comptroller, the City may use lease financing or other alterative types of financing as permitted by the LFL.

VII. METHOD OF SALE

The City Comptroller shall confer with the City's Municipal Advisor and/or Bond Counsel to determine the most appropriate method of sale based upon various issuance specific factors.

Definitions.

> *Competitive Sale:* This sale process includes the advertising of the debt issuance with the sale date, time and place where sealed bids will be taken. The bids are then evaluated and the issuance is awarded to the bidder providing the lowest interest cost.
>
> *Negotiated Sale*. In negotiated sale, the issuer selects a qualified underwriter, or team of underwriters. The underwriter(s) then offers to sell the issuer's debt to investors at an interest rate scale agreed to between the issuer and the underwriter prior to the day of pricing. The underwriter(s) will purchase any unsold bonds from the issuer at a price that will both produce the lowest interest cost to the issuer while selling the balance of the bonds to investors.

If a negotiated sale process is deemed appropriate, the underwriter(s) shall be selected through a competitive, Request for Proposals ("RFP") process. The City Comptroller may request the City's Municipal Advisor and/or Bond Counsel to assist in this process, analyze proposals received and provide recommendations with respect to the selection.

Participation in State and Federal Loan Programs. When determined appropriate, the City may issue debt obligations in conjunction with loans made pursuant to State and Federal programs, e.g., the State programs for providing funding of eligible drinking water and water quality projects and managed by the New York State Environmental Facilities Corporation.

VIII. TYPES OF DEBT

Tax-Exempt Bonds: The City aims to finance its capital program on a tax-exempt basis to the extent permitted by the LFL and federal tax laws and regulations, and has post-issuance compliance procedures to ensure compliance with such laws and regulations to maintain the tax-exempt status of its bonds.

Taxable Bonds: For certain capital purposes not eligible for tax-exempt financing, the City may issue taxable bonds. Taxable bonds may be structured to mature earlier than permitted by state law, depending on market conditions and the impact on overall debt service of a given bond issue. The City may also issue taxable bonds for refunding purposes if it deems them in the City's interest, as approved by City Comptroller and City Council.

Optional Redemption: The City typically sells bonds with a par call date no later than eight (8) years from the date of issuance, with bonds maturing beyond the call date being subject to the par call option. However, the City may consider alternative structures after assessing the costs and benefits of such structure and market conditions at the time of issuance, and determining such issuance is in the best interest of the City, in consultation with the City's Municipal Advisor.

IX. DEBT LIMIT

Pursuant to the State Constitution, the total amount of the City's outstanding debt may not exceed seven per centum (7%) of the five-year average taxable full valuation of real property assessments in the City. This is the Constitutional Debt Limit ("CDL"). The City's water debt, budgetary appropriations, and operational financings are excluded from the calculation of the debt limit. Self-supporting debt, including sewer debt, paid from non-real property tax revenue may also be excluded in full or part if authorized by the New York Office of the State Comptroller. If applicable, the City Comptroller should apply for all self-supporting debt exclusions in order to maintain sufficient debt capacity.

The City Comptroller shall ensure that the net general obligation debt of the City will not exceed the City's Constitutional Debt Limit.

X. INVESTMENT OF DEBT PROCEEDS

The City Comptroller shall invest proceeds of obligations in accordance with the City's Investment Policy, adopted in accordance with Section 39 of the General Municipal Law, Section 11 of the General Municipal Law, and in accordance with applicable Federal tax requirements. New York State law permits the City to co-mingle debt proceeds with operating monies under a pooled investment program. However, for disbursement purposes, debt proceeds are required to be deposited in one or more demand accounts separate from other funds of the City. Accounting records shall be maintained to ensure that debt proceeds are spent for the purpose(s) for which they are authorized.

XI. TIMELY REPAYMENT OF DEBT OBLIGATIONS

The City must be certain that debt payments are made timely and in full, without impairing its cash flow and subsequently its ability to provide essential governmental services. The State Constitution requires that principal payments on outstanding debt be budgeted annually. Accordingly, the City Comptroller shall monitor the City's cash flow position and annual operating budget to ensure the full and timely repayment of all debt principal and interest due in each fiscal year.

XII. REFUNDING OF OUTSTANDING LONG-TERM DEBT OBLIGATIONS

The City Comptroller, with the assistance of the City's Municipal Advisor, shall periodically review the City's outstanding, long-term debt to identify opportunities to refinance (refund) its debt. Consistent with LFL §90, refunding bonds shall be issued only if they produce present value savings. If a refunding opportunity is identified, the City Comptroller shall work in conjunction with the City's Municipal Advisor to determine if the potential benefits of the refunding outweigh the risks or costs of delaying the refunding.

XIII. CREDIT RATING STRATEGIES

The City's credit rating has a significant impact on its ability to access the capital markets, the issuance costs associated with a debt sale, and the interest rate that is obtained on its debt obligations. As such, the City is committed to maintaining a credit rating strategy. However, the rating strategy must not compromise the delivery of basic services to City residents. The City Comptroller will be responsible for maintaining relationships with rating agencies assigning ratings to the City's debt. The City Comptroller will confer with the City's Municipal Advisor regarding rating agency methodologies and the City's credit rating strategy. Changes to current methodologies could impact future fiscal decisions.

XIV. ARBITRAGE REBATE COMPLIANCE

The City shall retain an arbitrage rebate consultant, selected pursuant to an RFP process, to perform calculations that may be required to comply with the arbitrage rebate compliance requirements set forth in the Internal Revenue Code of 1986, as amended.

XV. CONTINUING DISCLOSURE REQUIREMENTS

The City Comptroller shall work in conjunction with the City's Municipal Advisor in order to ensure compliance with secondary market information and disclosures timely made on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") website pursuant to Rule 15-2c-12 of the Securities Exchange Act of 1934.

XVI. ANNUAL REVIEW & AMENDMENTS

On an annual basis, or as deemed necessary, the City Council shall review this Policy and shall approve policy revisions, if any, by formal resolution.

ADOPTED: