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DE SOTO'S 5-YEAR CIP PREPARATION

Debt Management Considerations

October 2017

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USE OF DEBT FINANCING

- The City's current CIP draft contemplates the use of new general obligation bonds as a funding source
  - 2019 - $900,000
  - 2020 - $511,000
  - 2022 - $2,000,000
  - Note the City has outstanding bonds callable in 2019 and 2020 that it may pursue concurrently with some or all of its new money issuances, the issuance schedule above is preliminary and will likely change
- The City must consider its credit rating as it assesses the implications of adding new debt to finance capital projects in light of its existing debt obligations and overall credit profile
  - i.e., will the City's AA- rating from S&P come under pressure?
- Columbia has reviewed the City's credit profile and preliminary debt plans to design a set of policies that will protect the City's current rating

RECOMMENDED POLICIES

- The following policies will protect the City's credit profile all other factors being equal
  - (1) Outstanding Principal / Market Value - Maximum of 4% (currently at 3.86%)
  - (2) Debt Service / Total Governmental Fund Expenditures - Maximum of 30% (currently 26.3% as calculated by S&P)
  - (3) Available fund balances to support general operating expenditures equal to at least 30% of expenditures (currently 37% as calculated by S&P)

POLICY MANAGEMENT

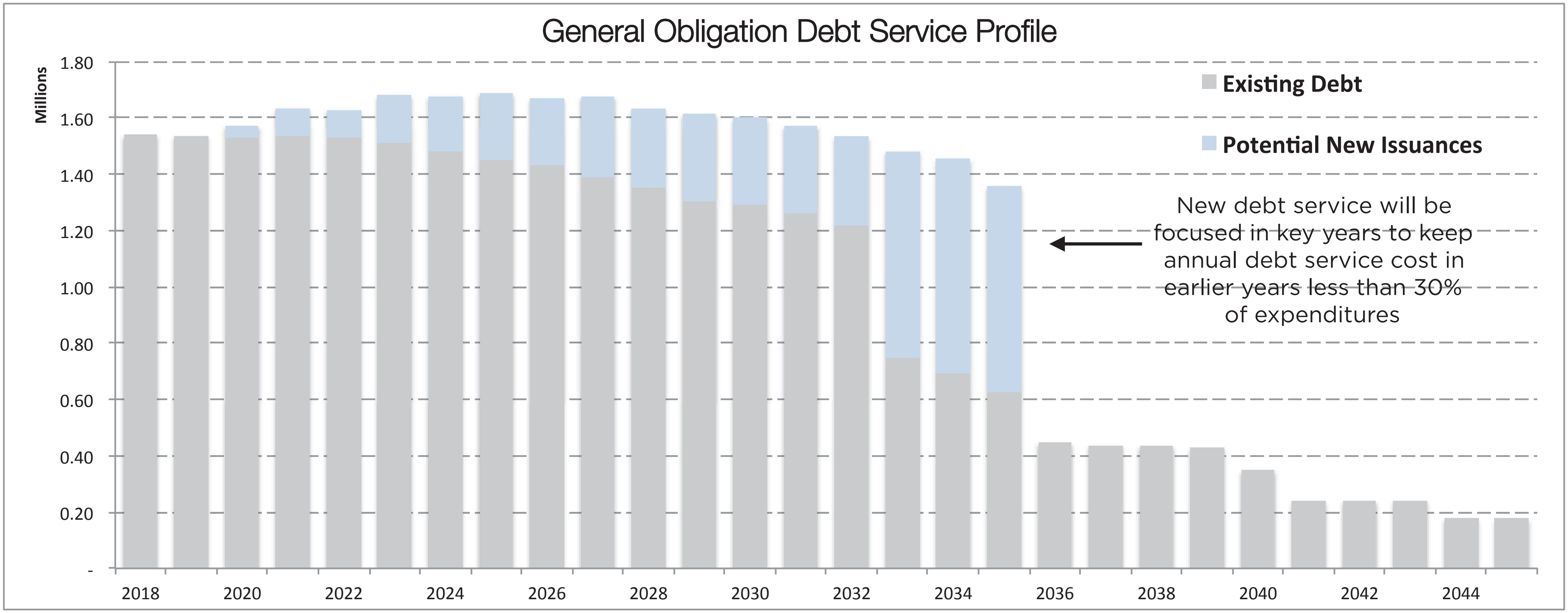
- Because the City will be amortizing existing debt faster than it is issuing new debt over the CIP timeframe, the first policy restraint will be easily managed

Year	Estimated Amount Outstanding	Estimated Market Value (1% Growth)	Debt / Market Value
2018	18,705,000	484,326,440	3.86%
2019	18,695,000	489,169,704	3.82%
2020	18,285,000	494,061,401	3.70%
2021	17,355,000	499,002,015	3.48%
2022	18,400,000	503,992,036	3.65%

Note the amounts outstanding include the new issuances shown on slide 2

POLICY MANAGEMENT

- To manage the debt service to expenditure restraint, new principal will be strategically amortized to “fill-in” gaps within the City’s existing debt service profile, predominantly starting in 2024 and through 2034



Note the blue shaded portions of the bars represent estimated debt service on the new issuances shown on slide 2

POLICY MANAGEMENT

- Though not a debt metric, the 30% fund balance policy is key to the City's credit strength, especially if its adds new debt
- The City already maintains sufficient balances to meet this test
- It's important the City not significantly draw down its balances for capital expenditures or other purposes
- As reported in S&P's latest rating report in August 2017, the City's significant available balances available for general operating expenditures is a cornerstone to the City's rating
- In addition to including policy language in the relevant sections of the City's CIP, the City can also update its other policies, including its debt management policy, as it determines appropriate

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