



HUNTSVILLE UTILITIES POLICY

Revision Approval Date: Gas & Waterworks Board-11/14/2023 Electric Board-11/15/2023	Date Posted: 11/30/2023	Implementation Date: 12/1/2023
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Policy #: FM - 10

Policy: Debt

Purpose: This policy sets forth the criteria for issuance and repayment of debt by Huntsville Utilities (HU). The primary objective of the Debt Policy is to establish criteria that will protect HU' financial integrity while providing a funding mechanism to meet capital needs. The underlying approach is to borrow only for capital improvements that cannot be funded on a pay-as-you-go basis. HU will not issue long-term debt to finance current operations.

All debt issued will be in compliance with this policy, Alabama State Code Section 11-81-160 through Section 11-81-190 and all other City, State, and Federal laws, rules, and regulations. This policy supersedes any other HU Debt policies. All debt for HU will be issued in the name of the City of Huntsville.

Budgeting and Capital Planning

The Chief Financial Officer (CFO) and Finance staff are responsible for coordinating and analyzing the debt requirements. This will include timing of debt, calculation of outstanding debt, compliance, impact on future debt burdens, and current revenue requirements. Prior to issuance of debt, HU will prepare revenue projections, such as the annual budget or a five-year financial forecast, to ensure that there is adequate revenue to make principal and interest payments.

Types of Long-Term Debt

Generally, all debt for HU shall be revenue debt. Revenue debt or revenue bonds are payable from revenue generated by the designated utility for which the financing was obtained. No taxing power or general fund pledge is provided as security. Unlike general obligation bonds, revenue bonds are not subject to the City's statutory debt limitation nor is voter or customer approval required.

Approvals

The appropriate board of HU will approve all debt issuances. All debt issuances also require the approval of Huntsville City Council as the City of Huntsville is the title owner of the systems operated by HU. Furthermore, Alabama law does not vest in HU the required powers to issue debt for such systems.

Limitation of Indebtedness

HU indebtedness is limited to assure strong financial health as indicated by strong bond ratings. The limitations are applied to the annual debt service payments for each utility.

- Debt Service Payments
 - Debt services payment for the Waterworks Utility should be no more than 30 percent of the annual total operating revenues projected for that year.



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- The Electric and Natural Gas Utilities debt service payments should be no more than 30 percent of the gross profit margin (total operating revenues less purchased commodity) projected for that year.
- Operating Revenue/Operating Expenses
 - Water total operating revenues ratio to Water operating expenses and annual debt service shall maintain a ratio of at least 110%.
 - The Electric ratio of operating revenue to operating expenses and annual debt service shall maintain a ratio of at least 110%.
 - Gas ratio of operating revenue to its respective operating expenses and annual debt service shall maintain a ratio of at least 110%.
- Additionally, bond covenants require rates for each utility to support Annual Net Income (ANI) (as defined in the indenture) as follows:
 - Water - ANI during each fiscal year of at least 115% of the amount to be paid into the water warrant fund for such fiscal year.
 - Electric – ANI for each fiscal year in an amount at least equal to 115% of the maximum annual debt service requirement.
 - Gas – ANI during each fiscal year at least equal to 100% of the maximum annual debt service requirement in each such fiscal year.

Structure and Term of Debt

HU shall pay all interest and repay all debt in accordance with the terms of the bond ordinance. The maturity of bonds issued should be the same or less than the expected life of the project for which the bonds were issued. To the extent possible, HU will seek level or declining debt repayment schedules.

When appropriate, HU may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities. However, HU will avoid overuse of variable-rate debt due to the potential volatility of such instruments.

Professional Services

The CFO shall be responsible for the evaluation of professional services required to administer the Utility's debt. Upon the CFO's recommendation, the appropriate board will review and approve a professional services contract for each of the following.

1. Bond Counsel

All debt issued by HU will include a written opinion by bond counsel affirming that the City/Utility is authorized to issue the proposed debt. The opinion shall include confirmation that the City/Utility has met all city and state constitutional and statutory requirements necessary for issuance, a determination of the proposed debt's federal income tax status and any other components necessary for the proposed debt. The relationship with Bond Counsel being one of a fiduciary nature should be an ongoing relationship.

2. Financial Advisor

A Financial Advisor(s) will be used to assist in the issuance of the Utility's debt. The Financial Advisor will provide the Utility with objective advice and analysis on debt issuance. This includes, but is not limited to, monitoring market opportunities, structuring, and pricing debt, and



preparing official statements of disclosure. The relationship with the Financial Advisor being one of a fiduciary nature should be an ongoing relationship.

3. Underwriters

An Underwriter will be used for all debt issued in a negotiated or private placement sale method. The Underwriter is responsible for purchasing negotiated or private placement debt and reselling the debt to investors. The relationship with the Underwriter need not be an ongoing relationship and may change with each debt issuance as they have no fiduciary relationship with HU.

4. Trustee

A Trustee will be used to provide accurate and timely securities processing and timely payments to bondholders. The relationship with the Trustee need not be an ongoing relationship and may change with each debt issuance as they have no fiduciary relationship with HU.

Method of Sale

Because HU issues debt generally less than one time a year, the negotiated method of sale will be the method of choice for HU. The competitive process will be considered if there are valid reasons for determining that this would lead to lower interest and/or issuance cost for HU.

Credit Ratings

HU will maintain good communication with bond rating agencies about its financial condition. This effort will include providing periodic updates on HU's general financial condition, coordinating meetings and presentations in conjunction with a new issuance. HU will continually strive to maintain its bond rating by improving financial policies, budgets, forecasts and its overall financial health.

Refunding Debt

A debt refunding is a refinancing of debt typically done to take advantage of lower interest rates. Unless otherwise justified, such as a desire to remove or change a bond covenant, a debt refunding will require a present value savings of at least three percent of the principal amount of the refunding debt being issued.

Arbitrage Rebate Monitoring and Reporting

HU will, unless otherwise justified, use bond proceeds within the established period pursuant to the bond ordinance, contract or other documents to avoid arbitrage. Arbitrage is the interest earned on the investment of the bond proceeds above the interest paid on the debt. If arbitrage occurs, HU will pay the amount of the arbitrage to the federal government as required by Internal Revenue Service Regulation 1.148-11. HU will maintain a system of recordkeeping and reporting to meet the arbitrage rebate compliance requirement of the IRS regulation. For each bond issue not used within the established period, the recordkeeping shall include tracking investment earnings on bond proceeds, calculating rebate payments, and remitting any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the outstanding debt.

Covenant Compliance

The City/Utility will comply with all covenants stated in the bond ordinance, contract, etc.

Ongoing Disclosure



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The CFO or their designee shall be responsible for providing annual disclosure information to established national information repositories and for maintaining compliance with disclosure statements as required by state and national regulatory bodies. Securities & Exchange Commission disclosure shall occur by the date designated in the bond ordinance.

Original Issue Date: 3/1/19

Revision/Review Dates: 7/30/21 1/1/23 (N/C), 2/1/23 (N/C)