City of New York

Debt Management Policy
New York City General Obligation and
New York City Transitional Finance Authority

(as of August 2019)

OVERVIEW

The purpose of this policy is to establish general guidelines for debt issuances by the City of New York (the "City") through the General Obligation ("GO") and New York City Transitional Finance Authority ("TFA") Future Tax Secured ("FTS") credits. The considerations below are consistent with the New York State Local Finance Law ("LFL") and other applicable laws, and incorporate further controls to achieve the City's policy objectives. Under the LFL and the City Charter, the City Comptroller (through the Bureau of Public Finance) and the Mayor (through the Office of Management and Budget ("OMB")) are jointly responsible for the issuance of City indebtedness. Pursuant to the TFA Act, the City Comptroller and the Mayor approve the issuance of TFA indebtedness. The City will review the Debt Management Policy annually and update it as necessary.

FINANCING NEEDS

The four-year Capital Commitment Plan, which is updated three times a year, as required by the City Charter, shapes the capital budget and the needs for debt funding under the GO and TFA FTS credits. The financing plans for the Capital Commitment Plan are outlined in the Preliminary Budget and Executive Budget prepared by OMB. The City expects to use its GO and TFA FTS credits as the primary financing vehicles for new money capital needs funded with City resources. The City can use monies appropriated in the Capital Stabilization Fund or adjust its Capital Commitment Plan to maintain debt affordability at the levels discussed herein and remain in compliance with all relevant bond covenants and indentures.

DEBT MANAGEMENT

I. PURPOSE OF FINANCING

A. New Money Bonds

- Consistent with LFL § 11.00, the City may not issue debt for a period longer than the period of probable usefulness ("PPU") set forth in the section for such object or purpose, "provided, however, that for purposes of selling bonds or notes evidencing indebtedness contracted for any two or more objects or purposes, or any combination thereof, for which the periods of probable usefulness as determined pursuant to this section 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." It is the City's objective to match the weighted average useful life of the financed capital assets with the average life of the bonds sold, while maintaining the rapidity of debt repayment. The rapidity of principal retirement for GO Bonds can be found in GO Official Statements and for TFA FTS Bonds, it can be calculated from information available in TFA's audited financial statements.

- Pursuant to the City Charter and applicable State law, all expenditures made with proceeds of GO or TFA FTS bonds must be for capital purposes, determined in accordance with generally accepted accounting principles. In addition, pursuant to Comptroller's Directive #10, the City may only borrow for projects with a useful life of five years or longer, or three years or longer for projects consisting of computer hardware, software, networks, and information technology systems, and costing $35,000 or more. Effective July 1, 2020, the minimum cost for a financed capital project will be raised from $35,000 to $50,000.

B. Refunding Bonds

- Consistent with LFL § 90.10, refunding bonds shall be issued only if they produce present value savings. The City further requires present value savings of at least 3%, on an aggregate basis, for any refunding transaction.

- In addition, the City typically structures its refunding bond issues to achieve savings over the financial plan period, with no dissavings in any year on both a cashflow and present value basis, unless otherwise approved by OMB and the City Comptroller's Office.

- The City will typically seek to purchase State and Local Government Securities (SLGS) to fund its refunding escrows. However, the City may choose to fund an escrow with Open Market Securities (OMS) when SLGS are not available or market conditions make such an option preferable. The City will take necessary steps to optimize execution and avoid negative arbitrage.

- With respect to each bond refunding, the City will evaluate its debt portfolio with respect to refunding bond candidates in order to minimize any negative impact on savings and/or refunding efficiency. For example, the City will review the potential use of taxable and variable rate bonds in this regard.

- If any variable rate bonds are included in a refunding, savings are calculated to be neutral on a present value basis (i.e. the assumed refunded bonds interest rate equals the equivalent yield to maturity on the refunding bonds for the same maturity).

C. Conversion Bonds (Variable to Fixed)

- For variable rate bonds converted into the fixed rate mode, the bonds are typically reoffered in the same maturities with primarily pro-rata reductions in the amounts reoffered resulting from any premium generated in the transaction.

II. DEBT LIMITATIONS

A. General Obligation Debt

- The State Constitution provides that, with certain exceptions, the City may not contract indebtedness, including contracts for capital projects to be paid with the proceeds of City bonds, in an amount greater than 10% of the average full value of taxable real estate in the City for the most recent five years (the "general debt limit"). This limitation is also prescribed in LFL § 104.00. The Financial Emergency Act imposes various limitations on the issuance of City indebtedness pertaining to tax anticipation notes ("TANs"), revenue anticipation notes ("RANs") and bond anticipation notes ("BANs"). Should TANs or RANs be issued, they must mature not later than the last day of the fiscal year in which they were issued.

B. TFA Debt

- The New York City Transitional Finance Authority Act, as amended, permits the TFA to have outstanding $13.5 billion of Future Tax Secured Bonds (including Senior Bonds and Parity debt but excluding Recovery Obligations) and the TFA may have outstanding Future Tax Secured Bonds in excess of $13.5 billion, provided that the amount of such additional Future Tax Secured Bonds, together with the amount of indebtedness contracted by the City, do not exceed the debt limit of the City described above. The issuance of additional bonds must meet the requirements of the TFA's Amended and Restated Original Indenture, as restated April 12, 2019, as supplemented.

C. Variable Rate Debt

- Under LFL § 54.90, the City can issue variable rate bonds up to 25% of the general debt limit. This limitation applies only to the City and is subject to renewal annually by the State Legislature. Under the Public Authorities Law ("PAL") § 2799-gg, TFA FTS variable rate bonds are limited to 20% of the TFA's debt capacity.

- The City or the TFA may issue variable rate debt in such amounts as deemed necessary and/or beneficial by OMB and the City Comptroller's Office to provide funding for capital projects or refund existing obligations. Such debt includes, but is not limited to, Variable Rate Demand Obligations ("VRDBs"), Auction Rate Securities and Floating Rate Notes. The City will seek to maintain its variable rate exposure to be no more than 20% of debt outstanding across the GO and TFA FTS credits. Variable rate debt allows the City to take advantage of rates on the shorter end of the yield curve for longer term bonds and to diversify its offerings in the market.

- The policy limitation of variable rate debt in amounts no more than 20% of outstanding GO or TFA FTS bonds is viewed as prudent in light of the City's

General Fund balances, which are largely invested in short-term assets and therefore serve as a hedge against rising interest rates.

III. METHOD OF SALE

A. Negotiated Sale

- Authorization: LFL § 54.10 provides authorization, which expires under State law on June 30 of each year and has been renewed annually, for the City to sell bonds or notes on a negotiated basis and LFL § 54.90 provides authorization, which expires annually on July 15, for selling variable rate debt via negotiated sale. These statutes have been routinely extended by the New York State Legislature each year.

- Syndicate: The City routinely monitors the performance of its underwriting syndicate that is selected through a Request for Proposal ("RFP") process. The priority of orders, designation policy, and underwriter compensation, including takedown, expenses, and any structuring fee, are determined in the discretion of the City. The City will consider policy goals in the utilization of minority-owned and women-owned business enterprises ("MWBEs") and service disabled veteran owned businesses ("SDVOBs").

- Selling Group: The City routinely monitors the performance of its selling group members, which are admitted based on a questionnaire review process. Selling group members are allowed to submit orders during the retail order period and member orders during the institutional order period. Selling group members may not enter priority orders, but may be designated.

- Allotments: The City reviews the record of all orders and allotments for each firm participating in the bond sale.

- Compliance: Firms that have not performed well or have committed any recent violations of significance are subject to removal and can have the opportunity to participate in bond sales once again after such suspension period, as determined by the City, has lapsed and any violations have been addressed.

- Direct Placements: In certain cases, the City enters into direct purchases of bonds with banks when such transactions may result in cost savings to the City, such as in the case of floating rate index bonds.

- Approval: Pursuant to LFL, all new bond issuances for GO and TFA FTS are subject to the approval of the State Comptroller, other than those sold at public sale as provided in LFL § 57.00 through § 59.00. The City does not currently utilize the LFL public sale provisions. Outstanding bonds being reoffered are not subject to State Comptroller approval.

B. Competitive Sale

- The City routinely issues taxable debt on a competitive basis (i.e., "public letting" under the LFL).

- The City aims to periodically issue tax-exempt debt on a competitive basis to provide a benchmark for bonds sold on a negotiated basis. Bid specifications, basis of award, and other requirements shall be provided in a Notice of Sale. Bonds sold via public letting are subject to the approval of the State Comptroller.

IV. DEBT STRUCTURE

All City and TFA bond issues shall comply with the requirements of Local Finance Law, which include rules concerning amortization of debt (the 50% Rule or the 105% Rule) and structure of PPUs.

A. Amortization

- <u>50% Rule</u>: LFL § 90.00 – The annual principal amortization in any given year cannot exceed any prior year principal amount by more than 50%.

- <u>105% Rule</u>: LFL § 21.00, as amended in 1993 – The bond structure must result in substantially level or declining debt service. Specifically, annual debt service cannot exceed the debt service in any prior year by more than the greater of 5% or ten thousand dollars.

  "For purposes of determining whether debt service is substantially level or declining on bonds issued with a variable rate of interest pursuant to section 54.90 of this article, the finance board [the Mayor and the City Comptroller] shall estimate the average rate of interest at which fixed interest rate bonds of the same maturities would be sold and amortize principal based upon such interest rate assumption."

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

B. PPUs

As discussed above under "Section I. Purpose of Financing, A. New Money Bonds", the City may issue debt for capital purposes within the constraints of certain outlined periods of probable usefulness. In addition, under "Section I. Purpose of Financing, B. Refunding Bonds", the City may issue debt for refinancing purposes within the constraints of the original refunded bonds remaining periods of probable usefulness. The bonds sold must comply with one of the three rules below that are based on the expected PPUs of the projects being financed, which are generally designated in 5-year increments for the original new money issuances.

- Actual PPU: The cumulative principal maturing in the bond structure through each year must exceed or be equal to the cumulative actual PPU amounts in every year for the group of financed projects.

- Weighted Average PPU ("WAM"): Financed projects' PPUs can be combined to create a weighted average PPU, which establishes the final maturity of the bond structure.

- Synthetic PPU: A combination of the Actual and WAM structures can be created that allows for a more efficient amortization of principal. A new set of PPUs is created (the "Synthetic PPU") such that the weighted average PPU of the Synthetic PPU structure is no greater than the weighted average PPU of the original PPU structure. Once the Synthetic PPUs are created, the cumulative principal in the bond structure must exceed or be equal to the cumulative Synthetic PPUs in every year.

C. Optional Redemption

- The City typically sells both tax-exempt and taxable bonds maturing in ten years or later with a par call date no later than 10.5 years from the date of issuance. While there is a presumption in favor of issuing bonds with a 10-year par call, the City may issue non-callable bonds or bonds with a call date shorter or longer than 10.5-years upon a determination that such issuance is in the best interest of the City, in light of the costs and benefits of such a structure and market conditions at the time of issuance. There has also been a preference to sell taxable bonds with a make whole call provision until the par call date.

D. Fixed Rate Debt

- The City aims to balance short-term and long-term debt service costs while minimizing debt service in the financial plan years.

- Tax-Exempt Bonds: The City aims to finance its capital program on a tax-exempt basis to the extent permitted by 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 will issue taxable bonds, typically limiting the final maturity of taxable bonds to no more than 15 years.

E. Variable Rate Debt

- Variable rate bonds are typically sold with longer-dated nominal maturities amortizing after the fixed rate bonds where the fixed rate bonds are compliant with LFL on a stand-alone basis prior to the addition of the variable rate bonds in the structure.

- When considering the use of variable rate debt, the City shall take into account the "all-in" cost of funds, the current interest rate environment, market dynamics for different forms of variable rate debt, and other relevant factors.

- Variable Rate Demand Bonds – Liquidity Provider: The City typically uses an RFP process to select firms that agree to provide a source of funds to purchase VRDBs that are tendered but not remarketed. Pursuant to LFL § 54.90, the City may only enter into such agreements with a "financially responsible party," as determined by the Mayor and the City Comptroller.

- Variable Rate Demand Bonds – Remarketing Agent: The City typically appoints the broker-dealer affiliated with the bank providing the liquidity for an issue of VRDBs as the remarketing agent. For firms that provide bank liquidity but do not have an affiliated broker-dealer with a short-term municipal securities desk, the City shall make remarketing assignments based on performance of the remarketing agents of comparable liquidity banks, the par amount of the liquidity facilities provided to the City by its affiliated bank, if applicable, the concentration/diversification of remarketing agents, and other metrics as applicable. The City routinely monitors the performance and financial capabilities of its remarketing agents and will change assignments based on those considerations as appropriate.

V. DERIVATIVE PRODUCTS

The City has adopted an Interest Rate Exchange Agreement Policy, as amended June 26, 2013, which can be found on the Comptroller's website at https://comptroller.nyc.gov/services/financial-matters/nyc-bonds/new-york-city-debt/policies-and-guidelines/.

VI. INVESTMENT OF GO BOND PROCEEDS

The NYC Comptroller's Office's Bureau of Asset Management is responsible for the investment of the City's funds, including unspent bond proceeds. The policy guidelines for short term investments for the New York City Treasury and related accounts can be found on the Comptroller's website at https://comptroller.nyc.gov/services/financial-matters/nyc-bonds/new-york-city-debt/policies-and-guidelines/. The TFA has entered into an agreement with the NYC Comptroller's Office to invest TFA bond proceeds, subject to the TFA's indenture and investment guidelines.

VII. ARBITRAGE REBATE COMPLIANCE

The City retains 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.

VIII. CREDIT RATINGS

The City's General Obligation debt is currently rated Aa1 / AA / AA and the TFA FTS – Subordinate debt is currently rated Aa1 / AAA / AAA by Moody's, S&P, and Fitch, respectively. Ratings from at least two credit rating agencies should be obtained for each GO or TFA bond issue. It is the City's current practice to obtain credit ratings from all three of the credit rating agencies listed above for each GO and TFA FTS bond sale. The financial advisor engaged for the particular bond transaction shall be responsible for soliciting ratings and communicating relevant bond sale information to the rating agencies to obtain ratings before the time of pricing. The most recent rating reports are available and will continue to be made available on the Comptroller's website at https://comptroller.nyc.gov/services/financial-matters/nyc-bonds/new-york-city-debt/ratings-reports/ and on OMB's investor relations website at www.nyc.gov/omb/bonds.

IX. CONTINUING DISCLOSURE

The City has adopted policies and procedures relating to its Continuing Disclosure Undertakings pursuant to Rule 15c2-12, as so amended to date, and is fully committed to ensuring that it complies with the reporting obligations undertaken therein. The City will amend such policies and procedures as required by any applicable amendment of Rule 15c2-12.

X. DEBT AFFORDABILITY

In accordance with New York City Charter § 232, the Comptroller issues annually a report regarding the City's capital debt. The report advises as to the maximum amount and nature of debt which, in the Comptroller's opinion, the City may legally and soundly incur for capital projects during each of the four succeeding fiscal years. The report also provides an overview of the City's debt outstanding and various measures of debt burden. The report can be found on the Comptroller's website at https://comptroller.nyc.gov/reports/annual-report-on-capital-debt-and-obligations/.

In addition, pursuant to Chapter 16 of the Laws of 1997, the Director of Management and Budget issues annually a Statement of Debt Affordability, which includes an analysis of the City's financing program. The Statement of Debt Affordability can be found on OMB's website at www.nyc.gov/omb.

The primary metric the City uses to determine debt affordability is that debt service (GO, TFA FTS and City-related subject to appropriation debt) as a percent of tax revenues should be no more than 15%.

The City will manage its debt issuances and Capital Commitment Plan to maintain affordability of debt service.