

## Debt Management Policy

### Purpose and Goals

This Debt Management Policy sets forth comprehensive guidelines for the financing of capital projects and infrastructure. The objective of the policy for the City to obtain financing only when necessary. The policy sets forth the process to identify the timing and amount of debt to be as cost-efficient as possible and the most favorable interest and other costs be obtained.

In following this policy, the City shall pursue the following goals when issuing debt:

1. Take all practical precautions to avoid any financial decision that would negatively impact current credit rating(s) on existing or future debt issues.
2. Utilize debt capacity in relation to City population growth and the tax base, or utility rate base, to meet long-term capital requirements. The highest priorities for the issuance of debt will be to fund a portion of the City's Capital Maintenance and Replacement Improvement Plan, Water and Sewer Enterprise Fund, or Tax Increment Financing Districts.
3. Consider market factors when setting a debt issuance sale date.
4. Determine the amortization (maturity) schedule, which will best fit with the overall debt structure of the City and related tax levy at the time the new debt is issued. For issuance of revenue bonds or general obligation bonds paid by revenues other than property taxes, the amortization schedule considered will best fit with the overall debt structure of the enterprise fund and its related rate structure. Consideration will be given to coordinating the length of the issue with the lives of assets, whenever practical, while considering repair and replacement costs of those assets to be incurred in future years as an offset to the useful lives, and the related length of time in the payout structure.
5. Assess financial alternatives to include new and innovative financing approaches, including, shorter-term financing options, grants, revolving loans, and other state and federal aid.
6. Minimize interest expense and issuance costs.

### Debt Issuances

#### Authority and Purposes of the Issuance of Debt

The laws of the State of Illinois authorizes the issuance of debt by the City. The Illinois Municipal Code confers upon municipalities the power and authority to contract debt, borrow money, and issue bonds for public improvement projects. Under these provisions, the City may contract debt to pay for the cost of acquiring, constructing, reconstructing, improving, extending, enlarging, and equipping such projects, or to refund bonds.

#### Types of Debt Issuances

- *Short-Term Debt (three years or less):* The City may issue short-term debt, which may include, bond anticipation notes, variable rate demand notes, and other such instruments that allow the City to meet cash flow requirements or provide increased flexibility in financing programs.

- *Long-Term Debt (more than three years):* The City may issue long-term debt, which may include general obligation bonds, debt certificates, installment notes, revenue bonds, special assessment bonds, and alternate revenue bonds. The City may also enter into long-term leases for public facilities, property, and equipment with a useful life of greater than one year.
- *Self-Supporting Debt:* The City intends for all of its debt obligations to be self-supported by revenues other than property taxes. If General Obligation Bonds are issued by the City, the City pledges to annually abate the property tax levy for such principal and interest payments to the extent revenues are available to pay debt service.

### **Structure of Debt Issuances**

The duration of a debt issue shall not exceed the economic or useful life of the improvement or asset that the issue is financing. The City shall design the financing schedule and repayment of debt to take best advantage of market conditions and to recapture or maximize its debt capacity for future use, and moderate the impact to the taxpayer.

All bonds will mature within the period, or average period, of usefulness of the assets financed

### **Sale of Securities**

Indebtedness to be issued by the City will be offered through the means approved by the City Council. If it is proposed that debt not be issued through competitive bidding, such request will state the compelling reasons why the competitive bidding process is not deemed suitable for the particular issuance of debt. Under these conditions, the City's financial advisor will conduct a request for proposals to select the underwriter.

As a matter of independence, and securities law, the Financial Advisor will not bid on, nor underwrite, any City debt issues on which it is advising.

### **Credit Enhancements**

The City may enter into agreements with commercial banks or other financial entities for the purpose of acquiring letters of credit, municipal bond insurance, or other credit enhancements that will provide the City with access to credit under terms and conditions as specified in such agreements when their use is judged cost effective or otherwise advantageous. Any such agreements shall be approved by the City Council.

### **Legal Constraints**

#### **State Law**

30 ILCS 305/0.01, et. seq.: the short title is "The Bond Authorization Act."

#### **Authority for Debt**

The City may, by bond ordinance, incur indebtedness or borrow money, and authorize the issue of negotiable obligations, including refunding bonds, for any capital improvement of

property, land acquisition, or any other lawful purpose. The City will not issue debt for current expenses, unless approved by the City Council.

### **General Obligation Debt Limitation**

The City of Warrenville is a home rule community, and therefore is not subject to the debt limitations imposed on non-home rule municipalities, which under the Illinois Compiled Statutes, limits the amount of general obligation bonded debt, which may be incurred at any one time, to no more than 8.625% of the total assessed value of real estate property. *However, the City shall impose the non-home rule limit upon itself.* Additionally, the limitation shall exclude self-supported debt.

### **Credit Implications**

When issuing new debt, the City should not exceed credit industry benchmarks consistent with the City's credit rating objective, where applicable. Therefore, the following factors should be considered in developing debt issuance plans:

- *Ratio of Net Bonded Debt to Estimated Full Value:* The formula for this computation is Net General Obligation Bonded Debt (not self-supported by an enterprise fund), which is the total outstanding debt divided by the current Estimated Full Value as determined by the most recent EAV, times three.
- *Net Bonded Debt Per Capita:* The formula for this computation is Net Bonded General Obligation Debt (not self-supported by an enterprise fund) divided by the current population as determined by the most recent census information available.
- *Ratio of Annual Debt Service to General Government Expenditures:* The formula for this computation is annual general obligation debt service expenditures divided by General Government (i.e., General, Special, and Debt Service Funds, if applicable) expenditures (excluding certain interfund transfers).
- *Rapidity of Debt Service Repayment:* The City will typically use level or declining debt repayment schedules, but may utilize back-loaded or balloon repayment schedules, if determined to be prudent after consultation with the City's financial advisor. The City will not use variable-rate-debt to avoid fluctuations in debt service requirements as well as fluctuation in tax levy rates. Only in those circumstances where it is to the City's advantage will debt service be scheduled on a non-even repayment basis, back-loaded or balloon repayment schedules.

## **Debt Administration**

### **Review of Financing Proposals**

All capital financing proposals that involve a pledge of the City's credit through the sale of securities, execution of loans or lease agreements or otherwise directly involve the lending or pledging of the City's credit, shall be referred to the City Administrator and Finance Director who shall determine the financial feasibility, and with the concurrence of the Long-Range Financial Planning workgroup, shall make the appropriate recommendations to the City Council for consideration.

### **Establishing Financing Priorities**

The Finance Director shall work with the City's financial advisor to administer and coordinate the City's debt issuance program and activities, including timing of issuance, method of sale, structuring of the issue, and marketing strategies. The Finance Director, along with the City's financial advisor, shall meet with the City Administrator and the City Council, or the City Council's designated representatives, such as the Long-Range Financial Planning workgroup, regarding the status of the current year's debt program and to make specific recommendations.

### **Ratings Agency Relations**

The City shall endeavor to maintain effective relations with the rating agency(s). The City Administrator, Finance Director, and the City's financial advisors shall meet with, make presentations to, and otherwise communicate with the rating agency(s) as needed in order to keep the agencies informed of the City's capital plans, debt issuance program, and other appropriate financial information.

### **Refunding Policy**

The City shall consider refunding outstanding debt when legally permissible and financially advantageous. The City shall review refunding opportunities in accordance with best practices set forth by the Government Finance Officers Association (GFOA).

### **Investment of Borrowed Proceeds**

The City will invest bond proceeds in accordance with the City's adopted investment policy.

The City acknowledges its ongoing fiduciary responsibilities to actively manage the proceeds of debt issued for public purposes in a manner that is consistent with Illinois statutes that govern the investment of public funds and consistent with the permitted securities covenants of related bond documents executed by the City. The management of public funds shall enable the City to respond to changes in markets or changes in payment or construction schedules to (i) minimize risk, (ii) ensure liquidity, and (iii) optimize returns.

### **Federal Arbitrage Rebate Requirement**

The City shall maintain, or cause to be maintained, an appropriate system of accounting to calculate bond investment arbitrage earnings in accordance with the Tax Reform Act of 1986, as amended or supplemented, and applicable United States Treasury regulations related thereto. Such amounts shall be computed annually and transferred from the Bond Construction Fund (i.e., interest earnings revenue account) to the Debt Service Fund escrow account, or other appropriate accounts, for eventual payment to the United States Treasury.

In order to avoid arbitrage earnings on bond proceeds, City staff shall recommend issuance of debt based upon the cash flow needs of the capital improvement projects, for which contracts for construction or other goods and services can reasonably be expected to be awarded during the calendar year. Consideration shall be given to the feasibility of obtaining property, such as rights-of-way, engineering services, or other matters which may affect the completion of the project in a timely manner, before a recommendation to issue debt is made.

#### TIF Debt

Tax Increment Financing debt is excluded from this policy when it is governed by a specific TIF redevelopment agreement, provided that it does not include the issuance of general obligation bonds.

### **Volume Cap Allocation**

Private activity bonds can be issued as Industrial Revenue Bonds (IRB) using the volume cap allocation. There is no obligation to the municipality in issuing IRB's. All the payment responsibility rests with the private party. The lien is on the property, secured by the IRB's. Under Federal Law, the City can utilize the authorized volume cap as additional incentive for industrial firms to relocate or expand facilities within its jurisdiction. IRB's can be attractive to industrial firms because of the difference to the bond buyers between the tax-free interest rates and the prevailing taxable interest rates.

If the volume cap allocation has not been used, the City can transfer its allocation of volume cap to any other home rule unit of government, the State of Illinois or any agency thereof or any non-home rule unit of government in accordance with state law. This may be done for a variety of purposes, including the issuance of single family mortgage revenue bond or mortgage credit certificates by Issuer or of such other purpose permitted.

Each home rule municipality is authorized a volume cap amount equal to \$110 per capita. Using this formula, Warrenville's allocation in 2022 equals \$1,490,830, based upon the State's assigned population of 13,553.

Each year, if the City's volume cap allocation has not been used, the City can reserve its allocation for use in the future. According to the State Office of Management and Budget, after the volume cap has been reserved, the municipality is supposed to allocate the amount reserved for private activity bonds by December 31 of that year. If the City does not allocate its volume cap by December 31, the City can request to carry-over its allocation for up to three years for a variety of different projects, but not for qualified small issue bonds (Industrial Revenue Bonds).