Article GB05-A DEBT POLICY

Sections:

Section GB05-A-1 OBJECTIVES.

This policy will provide for proper planning of capital expenditures, financing requirements, and guidelines for the issuance of various debt instruments. The results help secure favorable ratings and competitive lower interest costs on all types of borrowing instruments; thereby holding borrowing costs to a minimum and providing a savings to all taxpayers.

Section GB05-A-2 SCOPE.

This policy shall be applicable to Governing Body and City staff members during deliberation of financing methods for capital outlay.

Section GB05-A-3 DEFINITIONS.

The following words when used in connection with this policy shall have the meanings respectively ascribed to them herein.

APPRAISED VALUE: Real market value of real estate.

ARBITRAGE: The practice of simultaneously buying and selling an item in different markets in order to profit from a spread in prices or yields resulting from market conditions. Arbitrage profits are created by selling tax-exempt debt and investing the proceeds in higher-yielding taxable securities.

ASSESSED VALUE: Property value at which taxes are assessed against the real estate.

CALL PROVISIONS: Covenant in a bond sale which allows the seller to repay the debt instrument at an accelerated date.

DEBT INSTRUMENTS: Municipal financial agreement between a municipality and the underwriter, or other parties to the transaction.

DEBT SERVICE FUND: Accounts for the payment of principal and interest on the City's general obligation bonds, with the exception of Stormwater bonds.

DERIVATIVE: Contract whose value depends on, or derives from, the value of an underlying asset, reference rate, or index.

GENERAL OBLIGATION BOND: A bond secured by the issuer's full faith and credit.

MILL LEVY: One-tenth of one cent. The tax applied to real property. Each mill represents $1.00 of tax assessment per $1,000 of property value assessment.

PAYMENT DEFAULTS: Nonpayment of specific monies promised.

TAX INCREMENT FINANCING BOND: A bond repaid by incremental revenues generated in a Tax Increment Financing (TIF) District. A TIF bond may also be secured by the issuer's full faith and credit (general obligation bond).

Section GB05-A-4 PROVISIONS.

The acquisition of funds through debt will be a function of the type of funds needed, economic conditions at the time of sale, debt limit of the City, and other debt offerings within Johnson County at the time of sale.

Section GB05-A-5 PROCEDURES.

A. Pay as You Go Financing (PAYG): PAYG financing can be utilized as an alternative to short-term or long-term debt. The use of PAYG financing serves as a down payment on capital projects which can be used to reduce the long term impact of debt issuance and help the City achieve its debt benchmark goals. PAYG financing will utilize current year revenues or reserves.

B. Tax-Exempt and Taxable Debt: For existing tax-exempt debt, the City will endeavor to avoid actions which would cause the debt to become taxable.

   In some cases, the City may issue taxable debt for economic development purposes. The issuance of taxable debt will be evaluated by the City, in consultation with the City's bond counsel and financial advisor, on a case-by-case basis.

C. Objectives/Ratios for Issuance of Debt: The City shall monitor the absolute amounts and year-to-year trends of key financial and debt ratios. If credit market norms exist, the City should strive to meet those standards.

   The City shall monitor the following trends:

   1. Ratio of property tax-supported debt service to discretionary revenues.
   2. Ratio of property tax-supported debt service to total revenues.
   3. Ratio of outstanding General Obligation debt to the statutory debt limit. The City will strive to maintain a minimum of 30% of its statutory debt capacity.

   The City may review and consider the impact debt could have with regard to the following:

   1. Adherence to the Capital Improvement Plan.
   2. Potential for increase in assessed valuation.
   3. Potential for increase in sales tax revenue.
   4. Mill levy required to fund the Debt Service Fund annually.
   5. Other factors not specifically mentioned in this policy as the City determines pertinent.

D. Method of Sale: The City will market its debt issues on a competitive basis, unless circumstances related to unusual credit quality, issue size, or market access create a need for a negotiated sale process. If a negotiated sale is advised, the City will normally select the underwriter(s) needed to accomplish the structuring, marketing, pricing, and sale of the bonds through a competitive process. Exceptions to this competitive selection process may be approved by the City Administrator upon consultation with the City's bond counsel and financial advisor. For debt issues of a highly speculative nature, the City has established a list of pre-qualified underwriters. The City Administrator shall develop internal procedures for periodic review of the pre-qualification list and assignment of underwriters from the pre-qualification list to specific development projects. All pricing for negotiated sales will be performed with direct involvement by City staff and the City's financial advisor.

E. Sale to Accredited Investors: Certain issues may be of a highly speculative nature due to the type of project or the revenue structure. The City wants to ensure that all of its debt issues are purchased by investors fully knowledgeable of the risks involved with the investment. For highly speculative issues, the City will require the purchase by qualified investors (those generally defined by the Securities and Exchange Commission, Regulation D). To ensure these types of investors are maintained both in the primary and secondary bond markets, the City will require minimum denominations of $100,000. This provision may be waived by the Governing Body upon consultation with the City's bond counsel and financial advisor.

F. Temporary Notes: Temporary Notes will be issued only for equipment, land acquisition, and public improvements. Temporary Notes may be rated by a national credit rating agency or agencies if deemed financially advantageous. Judgment will be used on a project-by-project basis to determine the amount required for each note. Whenever possible, multiple projects will be consolidated into a single temporary note issue in order to minimize costs of debt issuance (financial advisor, bond counsel, rating fees, publications, closing costs). The maximum maturity of any one note will be four (4) years from date of issue. Call provisions, and the ability to buy the temporary notes at a discount, will be determined on a project-by-project basis. Temporary notes may be issued without benefit of a public sale for Special Benefit Districts and in emergency situations.

G. General Obligation Bonds: General Obligation Bonds will normally be issued only for equipment, land acquisition, and public improvements. General Obligation Bonds may be rated by a national credit rating agency or agencies if deemed financially advantageous. The maximum maturity shall not exceed the anticipated useful life of the capital item as authorized by law. As a general practice, the City will structure normal capital improvement projects to mature over 10 to 15 years, or the useful life of the project, whichever is less with at least 60% of the debt service amortization in the first 10 years of the issue. Generally, tax levy supported debt will be structured to provide level debt service payments. Payment of long term debt shall be budgeted in the Debt Service Fund and the Stormwater Fund. Where possible, special assessment revenues or other self-supporting funds will be pledged for the payment of general obligation bonds thereby reducing the burden of debt for the City at Large.

H. Lease, Lease Purchase, Lease Revenue Bonds, & Other Long-Term Agreements: Lease obligations and other long-term agreements may be used as a flexible, financial alternative for acquiring assets. The City will plan issuance of lease obligations and other long-term financing agreements according to the following guidelines:

1. The Finance Department will determine and document the justification for each proposed lease transaction. The justification should include an explanation for not recommending PAYG financing or general obligation debt financing. An analysis of various financing strategies should be performed to allow for the lowest possible costs to the City.

2. Each transaction will include project lease payments and a cash flow statement over the life of the transaction.

3. The scheduled maturity shall not exceed the anticipated useful life of the capital item, and in no case shall exceed 20 years.

I. Tax Increment Financing (TIF) Bonds: The City may issue TIF Bonds to finance eligible redevelopment project expenses as part of a TIF district. TIF Bonds issued by the City will normally be special obligation bonds supported by incremental revenues generated from the TIF District, and normally not General Obligation Bonds secured by the City's full faith and credit. The maximum maturity of TIF Bonds shall be twenty (20) years, and shall not exceed the anticipated useful life of the project. The minimum issue size for TIF Bonds issued by the City will be $5,000,000, unless an exemption is approved by the Governing Body. Additional policy requirements are provided in the City's Tax Increment Financing (TIF) Policy.

J. Transportation Development District (TDD) Bonds: The City may issue TDD Bonds to finance transportation related projects or infrastructure improvements as authorized by K.S.A. 12-17, 140 *et. seq.*, as amended. In no event shall special assessments be levied against the City-at-large and no full faith and credit debt may be issued by the City to finance a TDD project under this Act. The maximum maturity for TDD Bonds shall be twenty-two (22) years and shall not exceed the anticipated useful life of the project. The minimum issue size for TDD Bonds issued by the City will be $3,000,000, unless an exemption is approved by the Governing Body. Additional policy requirements are provided in the City's Transportation Development District (TDD) policy.

K. Community Improvement District (CID) Bonds: The City may issue CID Bonds to finance eligible project expenses as part of a CID district. CID bonds issued by the City will normally be supported by special assessments or a CID sales tax, or a combination of these revenues. In no event shall special assessments be levied against the City-at-large. The maximum maturity of CID Bonds shall be twenty-two (22) years and shall not exceed the anticipated useful life of the project. The minimum issue size for CID Bonds issued by the City will be $3,000,000, unless an exemption is approved by the Governing Body. Additional policy requirements are provided in the City's Community Improvement District (CID) Policy.

L. Refinancing Outstanding Debt: The City will consider refinancing outstanding debt when legally permissible and financially advantageous. In addition, the City may consider refinancing outstanding debt for restructuring purposes where revenue streams have declined and it is necessary to avoid default. When refinancing outstanding debt to reduce interest costs, the City shall seek to achieve a net present value benefit of at least 3% of the present value of refunded debt service for advance refundings. This 3% level is only a minimum target when refinancing to reduce interest costs – the City may elect not to refinance outstanding debt even if the 3% savings can be achieved. On an individual basis, the City will evaluate the present value benefit of potential current refunding transactions.

M. Derivatives: The City will cautiously plan for the potential use of derivative products. The City will carefully examine these products, which usually take the form of non-traditional financing structures, on a case-by-case basis with a full analytical review of the costs and benefits of the derivative option. The City will only consider derivatives in very specific debt applications, and not as a general rule for basic municipal infrastructure funding. When considering potential derivative products, the City will obtain third party opinions, most often from the financial advisor, as to the appropriateness of the specific derivative product. If the City chooses to use a derivative product, the City will establish an on-going management system to monitor the financial situation of the derivative product.

N. Arbitrage: The City will monitor investment earnings from debt proceeds in order to manage potential arbitrage liability. Any investment earnings retained by the City (i.e., not rebated as an arbitrage liability) will be used according to relevant debt covenants.

O. Disclosure Requirements: The City will follow a policy of full and complete primary and secondary disclosure of financial conditions and operating results, in conformance with guidelines issued by applicable entities to meet the disclosure needs of rating agencies, underwriters, investors, and taxpayers. The City will maintain open communications with applicable rating agencies to secure favorable credit ratings and competitive lower interest costs.

Section GB05-A-6 RESPONSIBILITY FOR ENFORCEMENT.

The City Administrator shall be responsible to the Governing Body for the enforcement of this Debt Policy. The Finance Director shall assist in the implementation of this policy. This policy is meant to be a guide to the Governing Body in evaluating different options for debt issuance to finance capital improvements and provisions may be waived by the Governing Body provided they are not in violation of state or federal law.

Section GB05-A-7 REFERENCES.

K.S.A. 10-101 et seq.; K.S.A. 10-201 et seq.; K.S.A. 10-301 et seq.; K.S.A. 10-427 et seq.; K.S.A. 12-6a01 et seq.; K.S.A. 12-631r et seq.; K.S.A. 12-685; K.S.A. 12-1740; K.S.A. 12-1770 et seq.; K.S.A 12-17,140 et seq.