CITY OF STOUGHTON DEBT MANAGEMENT POLICY

APPROVED BY COUNCIL JUNE 8, 1999
AMENDED AUGUST 26, 2008, APRIL 25, 2017 and
AMENDED April 10, 2018

The following debt management policies should be used to provide the general framework for planning and reviewing debt proposals. The Common Council recognizes that there are no absolute rules or easy formulas that can substitute for a thorough review of all information affecting the City's debt position. Debt decisions should be the result of deliberative consideration of all factors involved.

DEBT POLICIES

Every future bond or note (collectively "bond") issue proposal will be accompanied by an analysis showing how it conforms to the debt policies adopted by the Common Council. The City's financial advisor will review and comment on each bond issue proposal, especially in regard to conformance with existing debt policies and how the financial package impacts the City's debt structure, debt service tax impact and credit factors as viewed by rating agencies. City guidelines for determining appropriate utilization of debt include:

- General Principals
  - The City will not use short-term borrowing to finance operating needs except in the case of an extreme financial emergency which is beyond the City's control or reasonable ability to forecast.
  - The City will maintain a balanced relationship between issuing debt and pay-as-you-go financing.
  - The scheduled maturities of long-term obligations should not exceed the expected useful life of the capital project or asset(s) financed.
  - Interim financing in anticipation of a definite fixed source of revenue such as an authorized, but unsold bond issue, or a grant is acceptable, however, the City should pursue all available cash management techniques which will limit the need for interim financing. When determined necessary, such anticipation notes should not:
    - Have maturities greater than two years;
    - Be rolled over for a period greater than one year; or
    - Be issued solely on the expectations that interest rates will decline from current levels.
  - Use of bond proceeds should be limited to financing the costs of planning, design, land acquisition, buildings, permanent structures, attached fixtures or equipment, movable pieces of large equipment such as fire engines, construction project costs, economic development related capital costs, acquisition of other fixed assets, bond issue costs, debt service reserve requirements, and refunding of outstanding bond issues.

  - Non-capital furnishings and supplies will not be financed from bond proceeds.

  - Refunding bond issues designed to restructure outstanding debt is an acceptable use of bond proceeds.

  - The City should actively monitor its investment practices to ensure maximum returns on its invested bond funds while complying with Federal arbitrage guidelines.

- General Obligation Debt

  - A significantly large proportion of Stoughton's property taxpayers and citizens should benefit from projects financed by general obligation bonds.

  - This principle of taxpayer equity should be a primary consideration in determining the type of projects selected for financing by general obligation debt.

  - General obligation property tax-supported bonds should be used only after considering alternative funding sources, such as project revenues, Federal and State grants, and special assessments.

  - Every project proposed for financing through general obligation debt should be accompanied by a full analysis of the future operating and maintenance costs associated with the project.

- Revenue Debt

  - Revenue supported bonds should be used to limit potential dependence on property taxes for those projects with available revenue sources, whether self-generated or dedicated from other sources.

  - Whenever possible, the City will finance utility or enterprise projects by using self-supporting revenue bonds. Revenue bonds assure the greatest degree of equity because those who benefit from a project and those who pay for a project are most closely matched.

  - Every project proposed for financing through revenue bond debt should be accompanied by a full analysis of the future operating and maintenance costs associated with the project.

DEBT INDICATORS: TARGETED RANGES

Moodys Investors Service currently rates General Obligation debt for 2018 of the City "Aa2", electric system revenue debt for 2016 "A2" and water revenue debt for 2016 "A1". The City intends to manage its debt profile in order to maintain and improve these ratings over time. The City further intends to maintain a favorable debt profile as compared to similar communities in the Dane County area and to the medians of cities its size as reported by Moodys Investors Service. The following are the City's objectives with respect to debt and fund balance related measures:

- **FUND BALANCE.** To provide for unanticipated expenditures and to permit orderly adjustment to changes resulting from termination of revenue sources or unanticipated fluctuations in revenues, the City should strive to maintain an undesignated General Fund balance, which is fifteen to twenty percent of General Fund revenues.

- **EXPENDITURES FOR DEBT SERVICE.** Annual general obligation debt payments should remain in the range 22 – 24 percent of total budgeted expenditures for operations and debt service. This rating for 2017 budget was 18%.

- **DIRECT DEBT BURDEN.** The City's objective is to maintain a direct debt burden ratio of 4.00% or less (outstanding general obligation debt principal divided by total equalized value).

- **DIRECT DEBT PER CAPITA.** The City's objective is to maintain direct debt at a level equal to or lower than the Moody's Median A-1 on a per capita basis (outstanding general obligation debt principal divided by total equalized value).

DEBT ANALYSIS CRITERIA

Whenever the City is contemplating a possible debt issue, information will be developed concerning the following four categories commonly used by rating agencies to assess credit worthiness. The utilization of the following criteria may be selective and not all criteria may apply to a specific financing.

1. *Debt Analysis*
   - Debt capacity analysis
   - Purposes for which debt is issued
   - Debt type, structure and term
   - Debt burden and magnitude indicators and ratios as compared to other communities and national medians
   - Debt history and trends
   - Adequacy of debt and capital planning
   - Obsolescence of capital plant

2. *Financial Analysis*
   - Stability, diversity, and growth rates of tax sources
   - Trend in property valuation and collections
   - Current budget trends to include the effect of any State levy limitations
   - Appraisals of past revenue and expenditure estimates
   - Evidences of financial planning
   - History and long-term trends of revenues and expenditures
   - Adherence to generally accepted accounting principles
   - Fund balance status and trends
   - Financial monitoring systems and capabilities

3. *Governmental and Administrative Analysis*
   - Adequacy of basic service provision
   - Intergovernmental cooperation/conflict and extent of duplication
   - Overall city planning efforts

4. Economic Analysis

- Population and demographic characteristics
- Level of new construction and development
- Types of employment, industry, and occupation
- Trend of the economy

DEBT PLANNING TIMEFRAME

To allow sufficient time for review and analysis, bond issues should be submitted to the City Council at least two months prior to the meetings at which Common Council approval will be requested to award the sale of the bonds. General obligation bond borrowing and especially revenue bonds must be planned and the details of the plan must be incorporated in the multi-year CIP program. It is imperative that the City demonstrates to the rating agencies, underwriters and other financial institutions that may purchase City debt and City of Stoughton taxpayers that City officials are following a prescribed financial plan.

COMMUNICATION AND DISCLOSURE POLICIES

The City will maintain good communications with bond rating agencies to inform them about the City's financial condition. The City will follow a policy of full disclosure. Significant financial reports affecting or commenting on the City will be forwarded to the rating agencies. Each bond prospectus will follow Federal Security and Exchange Commission, State and the Government Finance Officers Association disclosure guidelines.

The City should attempt to develop coordinated communication processes with all other jurisdictions that share a common property tax base concerning collective plans for future debt issues. Reciprocally shared information on debt plans including amounts, purposes, timing, and types of debt would aid each jurisdiction in its debt planning decisions.

LONG TERM LEASES

Adequate financial feasibility studies should be performed for all innovative financing proposals such as lease and lease-purchase agreements. Lease financing is appropriate in the following situations:

a) Whenever the introduction of leased equipment and/or a capital improvement results in verifiable operating savings that, properly discounted, outweigh the lease financing costs.

b) To purchase important capital equipment or finance improvement projects for which lease financing costs can be paid for by: 1) existing non-general fund revenues; 2) new, earmarked revenues approved by the Council, or 3) incremental general fund revenues that can be specifically attributed to the introduction of the capital project.

c) To finance projects deemed important enough (for safety, legal, efficiency, or other reasons) to lead to a reallocation of existing revenues.

Written justification is required for each proposed lease transaction. The project lease payments and a cash flow statement over the life of the transaction are required for every proposed lease agreement. This justification should include the following:

a) Detailed explanation of the factors listed in the guidelines;

b) Reasons for not recommending a “current payment” alternative;

c) Explanation for not recommending financing through bond issuance.

OTHER TYPES OF DEBT

The City can act as a conduit for financing a variety of public/private partnerships where a private enterprise uses the City as a means of obtaining lower cost financing. These issues in the past have included Special Assessment “B-Bonds” for subdivision development and Industrial Revenue Bonds (IRB’s) for manufacturing plant expansions. The City has also used Tax Increment Financing District revenue to fund general obligation and revenue debt issues. Each type of debt issuance has a different type of concern or issue to deal with.

B-Bonds potentially have the greater risk compared to Industrial Revenue Bonds for the City and even though the B-Bond debt is not an obligation of the City there may be an effect on the credit rating of the City if the bond issuer defaults. The City should require that the party seeking the bonds provide the City with a financial plan that demonstrates the need for the special debt and that the project can sustain the necessary debt payments. In particular the City should determine the likelihood of the special assessments not being paid off in a timely manner and how the developer could pay the installments in that case. The City should require the establishment of a reserve account equal to one year’s principal and interest payment. The City should recover all administrative and issuance costs for the term of the bonds from the bond issuer by insuring that all of the administrative costs are included in the special assessments. The City will not issue any B-bond debt for any improvements coupled with a housing development project until there is a shortage of single family housing as determined by the Dane County Regional Planning Commission or some other recognized agency that can provide housing availability statistics.

Industrial Revenue bond debt merely uses the City as a conduit for obtaining lower cost financing. Due to the nature of these types of projects the City has no risk in the case of a default. The City should insure that the issuance of IRB provides benefit to the City through the creation of jobs or improvements to the manufacturing capabilities at the site and not for refinancing purposes. The City should recover all administrative and issuance costs for the term of the bonds from the bond issuer. In the case that the IRB will be issued on a tax-exempt basis, the City must consider the impact this may have on its ability to issue “Bank Qualified” tax exempt obligations in that calendar year.

Tax Increment Financing District debt is a way to collect the funds necessary to pay for the construction of the infrastructure designed to serve the district. The revenue is from the differential of the original tax revenue collected from the district before it was created and the value of the growth. The risk to using TIF debt financing is that the projections of growth may fail to materialize as quickly as expected and the shortfall which is a general obligation or revenue obligation of the City will have to come from the general taxpayers and not the property owners that specially benefit from the project. In 1995, State law structured TIF Debt to be feasible and self-sufficient. As a general guide the City should only undertake TIF projects if there is a committed project that will fund a substantial portion of the expected debt service and meet the requirements of the City’s Policy for the Creation of Tax Incremental Finance Districts and the Approval of TIF Projects.

LEGAL CONSIDERATIONS

General Obligation Bonds and Notes Chapter 67 of the State Statutes. The City is authorized to issue General Obligation Bonds and Notes payable from ad valorem taxes to finance capital improvements. The repayment term for bonds cannot exceed 20 years and notes cannot exceed 10 years. The Wisconsin State Statutes provide that the principal amount of bonds payable from tax receipts (including bonds payable from special assessments) will not exceed 5% of the total equalized valuation of the taxable property in the City.

Revenue Bonds for Cities Section 66.51 of the State Statutes. The City is authorized to issue Industrial Revenue Bonds payable from revenues generated from the owner of the project. The repayment term cannot exceed 35 years. The Wisconsin State Statutes provide that the credit of the City will not be pledged to repay this form of debt. This type of debt will not count toward the 5% calculation discussed above.

Revenue Bonds for Utility Purposes Section 66.066 of the State Statutes. The City is authorized to issue Revenue Bonds payable from revenues generated from the income of the utility systems like water, sanitary sewer, electric, transportation and other related types of capital improvements. The repayment term cannot exceed 40 years. The Wisconsin State Statutes provide that the credit of the City will not be pledged to repay this form of debt. This type of debt will not count toward the 5% calculation discussed above.

Special Assessment B-Bonds Section 66.54 of the State Statutes. The City is authorized to issue B-Bonds payable from special assessments levied against benefiting properties. The B-Bonds can be used to construct improvements like streets, water and sewer lines, sidewalks, street lighting, etc. The repayment schedule is complex because the repayment schedule must match that of the special assessment plan for the particular project. The term cannot exceed the length of time that the special assessment project is levied for in the adopting ordinance. The Wisconsin State Statutes provide that the credit of the City will not be pledged to repay this form of debt. This type of debt will not count toward the 5% calculation discussed above.

Tax and Grant Anticipation Notes. The City is further empowered under the State law to borrow money to meet the cash requirements of any fund in anticipation of revenue receipts from the current fiscal year. All such tax and revenue anticipation notes must be repaid within nine months from the date borrowed and in no event beyond the end of the fiscal year in which the debt was incurred.

The City has never utilized tax anticipation or grant anticipation notes, but could do so under the procedures outlined in the State Statues. Unlike tax and revenue anticipation notes which represent the full faith and credit obligations of the City payable from the General Fund revenues, grant anticipation notes are special obligations payable solely from, and secured by, federal highway grants. The taxing power of the City is not pledged to the payment of the notes, nor do the notes constitute an indebtedness of the City within the meaning of any constitutional, statutory or charter provision.