



CITY OF MARSHFIELD, WISCONSIN

POLICIES AND PROCEDURES

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CHAPTER: Debt Management

SUBJECT: Debt Management

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APPROVED BY: Alanna Feddick, Chairperson, Finance, Budget and Personnel Committee

DEPARTMENT OF PRIMARY RESPONSIBILITY: Finance Department

Special Notes: This policy/procedure manual does not in any way constitute an employment contract and the City of Marshfield reserves the right to amend this manual at any time subject only to approval by the Common Council.

I. POLICY STATEMENT

The purpose of this policy is to establish a framework for debt management to work in conjunction with the Capital Improvement Program Development. These guidelines will enhance the quality of decisions, rationalize the decision-making process, identify objectives for staff, and demonstrate a commitment to long-term financial planning.

This policy will be a positive factor in the municipal market's assessment of the City's credit quality. The City's financial condition and credit ratings should always be the primary considerations when considering the issuance of debt. It should be recognized that these guidelines are not immutable; changing

circumstances require flexibility and revision. Anticipation of every future contingency is unrealistic. When adjustments are necessary, the reasons for such policy changes need to be well documented if the City wishes to demonstrate to the credit markets and its citizens that its commitment to sound debt management principles is unchanged.

The Electric and Water Department shall be responsible for determining its own debt management policy.

II. PURPOSE AND TYPES OF DEBT

A. General Obligation Bonds and Promissory Notes

The defining feature of general obligation is the source that secures its repayment: an ad valorem tax levied on all taxable property within the limits of the municipality at the time the general obligation is issued. Chapter 67 of the Wisconsin statutes governs the issuance of various obligations generally known as "general obligation" bonds or notes.

General obligation bonds may be issued by a municipality to finance any project undertaken for a public purpose. The term of general obligation bonds is limited to 20 years from the original date of issuance.

General obligation promissory notes may be issued for any public purpose. Unlike bonds, the issuance of notes is not limited to projects. Therefore, notes can be issued to fund general and current expenses other than those permitted in connection with bonds. The term of notes is limited to ten years from the original date of issuance.

The City should limit issuance of bonds and notes exclusively for the acquisition, planning, design, construction, development, extension, enlargement, renovation, rebuilding, repair or improvement of land, waters, property, streets, buildings, equipment or facilities when it can be determined that future citizens will receive a benefit from the improvement(s). Incidental to the issuance of bonds and notes, a portion of the proceeds can also be used to pay the associated issuance costs and capitalized interest when appropriate. Proceeds from long-term debt should not be used to fund current operating costs.

B. State Trust Fund Loans

The Board of Commissioners of Public Lands of the State of Wisconsin has funds available to loan to Wisconsin cities and villages. These "trust funds" are derived primarily from the sale of public lands and from penal fees. The Board may loan trust fund money to a city for any project undertaken for a public purpose consistent with the purposes allowed for issuance of general obligation bonds. The term of trust fund loans is limited to 20 years.

The City shall limit the use of state trust fund loans to aggregate borrowings of less than \$1 million and/or when the term of repayment is five years or less. State trust fund loans should also be considered when the interest rate offered makes the cost of borrowing less than or comparable to general obligation bonds and notes after considering the cost of issuance.

C. Revenue Bonds

Revenue bonds are issued to finance public utilities and repayment is made from revenues generated by the utility. Revenue obligations have no claim on the taxes or other general revenues of the issuing municipality. Revenue obligations give municipalities the ability to recover the cost of a project from beneficiaries of the project or users of the facility. Section 66.066 of Wisconsin Statutes governs the issuance of revenue obligations. The term of revenue bonds is limited to 40 years.

The City should limit the use of revenue bonds to capital improvements for its wastewater utility or other such enterprise utilities which may be created and fall under the direction of the Common Council. Incidental to the issuance of the bonds, a portion of the proceeds can also be used to pay the associated issuance costs and capitalized interest when appropriate.

D. Other Debt Instruments

The City shall primarily use those types of debt instruments outlined above. Other types of debt instruments can be used as appropriate if their use is necessary or advantageous to the City. If other types of debt instruments are utilized, applicable state and federal guidelines should be followed.

Long-term borrowing should never be used to fund current operating costs. Short-term borrowing should only be utilized when absolutely necessary to maintain solvency.

II. LENGTH OF DEBT MATURITIES

General obligation debt issued for street and sewer projects should have a debt maturity of 10 years. This will facilitate additional borrowing capacity, reduce interest costs, and closely coincide with the repayments received from special assessments associated with the projects.

Major brick and mortar building projects and debt associated with Tax Incremental Financing Districts should have debt maturities of 20 years. The longer maturity will more closely match the useful life of the projects, and the available tax increment revenues will more closely match the related debt service requirements.

The availability of funds for debt service may sometimes necessitate that projects typically funded with debt service with a maturity of 10 years have debt service maturity of 15 or 20 years. Likewise, projects typically funded with debt service with maturity greater than 10 years may sometimes have the debt service maturity shortened if surplus funds are available. The scheduled maturities of long-term obligations should never exceed the expected useful life of the capital project or asset financed.

III. FINANCIAL, ECONOMIC AND DEBT ANALYSIS

A. Financial and Economic Considerations

The debt service schedule over the life of the transaction and a cash flow statement should be required for every proposed debt issue. The ability of future revenues to cover debt service payments without significant property tax or user fee rate increases should be analyzed. This analysis should include such factors as projected future expenditures not related to debt service and projections of relevant economic and demographic variables (e.g. assessed property values, income levels, population trends). Other factors to consider include the reliability of revenues expected to pay debt service, the effect of the proposed issue on the City's ability to finance future projects of equal or higher priority, unreserved fund balance levels, and projected tax levies and user fees of other common jurisdictions (e.g. school

district, technical college, Electric and Water Department).

B. Debt Considerations

Debt factors commonly considered in a credit rating analysis should be considered for every proposed debt issue. The City should not exceed 65% of its statutory debt capacity. Net general obligation bonded debt per capita should not exceed \$1,500. Debt service as a percent of budgeted expenditures should not exceed 15% of total budgeted expenditures for governmental type funds (i.e. general, special revenue, capital project, and debt service funds). Overlapping debt from common jurisdictions should be considered to the degree that it will necessitate tax increases for those jurisdictions. Certain instances may occur when these measures of debt burden may be exceeded (e.g. advance refundings, critical capital projects requiring the City's commitment). However, absent any unique circumstances, the City should attempt to remain within the above parameters.

C. The City should periodically review all outstanding debt to determine if savings can be achieved through refunding. The net present value savings for proposed advance refundings should total a minimum of 3 percent to 5 percent of refunded principal. Under certain circumstances a lower threshold may be justified, such as if interest rates are at historically low levels and future opportunities to achieve more savings are unlikely to occur.

V. SELECTION OF BOND COUNSEL, FINANCIAL ADVISORS, AND DEBT RATING AGENCIES

Bond counsel, financial advisors, and debt rating agencies should be selected as necessary according to state statutes and City procurement policies.