CITY AT THE CENTER
WEST ALLIS

POLICIES AND PROCEDURES MANUAL

SUBJECT	DEPARTMENT	DEPARTMENT IDENTIFICATION	
Debt Management Policies	Finance	1200	
SECTION	PAGES	EFFECTIVE DATE	REVISION DATE
1210	1-8	12/17/96	

1.0 PURPOSE:

The purpose of these policies is to ensure that all financing of the City be completed in a most cost efficient, professional manner and in accord with the highest standards of the industry, law and good governmental practices. These policies are for the benefit of the City and no provision thereof shall give to any person other than the City any benefit, right, remedy or claim. The City may at any time and without notice of any sort amend or supplement the policies in such a manner as the Common Council may deem appropriate.

2.0 ORGANIZATIONS AFFECTED:

These debt management policies will apply to any indebtedness of the City of West Allis and related entities including the Community Development Authority (CDA) and West Allis Memorial Hospital. The Department of Administration and Finance will be responsible for ensuring these policies are followed.

3.0 POLICY:

The City will consciously manage its debt to ensure continued high credit quality, access to credit markets, and financial flexibility. The debt management program will lower overall long-term cost of government for the City of West Allis residents and businesses.

4.0 REFERENCES:

None

5.0 PROCEDURES:

5.1 GENERAL POLICIES

1. Long term debt will not be used for current operations.

2. Long term borrowing will be limited to capital improvement projects and equipment.

3. Financing requirements will be reviewed annually. The timing for financing and the length of issues will be based upon the City's need for funds, market conditions and debt management policies.

4. Any capital improvement project or equipment purchase financed through bonds on an original or refinanced basis will be financed for a period not to exceed its expected useful life.

5. Total debt outstanding, which includes direct and indirect city debt as well as overlapping debt, will be considered when planning additional debt issuance. Total debt outstanding as a percent of equalized value should not exceed 6%. (Overlapping debt includes the City's share of: County Debt, County Debt issued on behalf of MMSD, Metro Sewer Debt, MATC Debt and West Allis/West Milwaukee School District Debt.)

6. The City will adopt a Capital Financing Plan/Debt Calendar which will control all issuance of debt by the City.

7. Short term borrowing for capital improvements such as TANs or BANs will be limited to periods of extreme instability of the bond market or similar factors.

8. Enterprise or special purpose fund projects should be financed without the use of general obligation bonds, when possible, or, if general obligation bonds are used such enterprise or special purpose funds will finance their pro-rata share of debt service costs associated with that project.

   In addition, the aforementioned will be subjected to the current Debt Fee Schedule. (Addendum #8)

9. Tax exempt debt issued by the City shall be Qualified Tax-exempt Obligations. The maximum amount of tax-exempt debt to be issued in any given year will be less than the amount stipulated by Section 265(b)(3) of the Internal Revenue Code of 1986.

   Qualified Tax-exempt Obligations grant financial institutions the ability to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

10. Borrowed funds will be spent first. Reimbursement intent forms will be filed as required. (Addendum #7)

11. A minimum of 50% of capital project anticipated expenditures, excluding the annual capital program, and capital acquisitions should be funded by current operating revenues or designated funds.

5.2 OPERATING RESERVES

The maintenance of adequate operating reserves is essential to the financial strength and flexibility of the City as a whole. Adequate operating reserves are an integral part of the financial structure of the City and help make it possible for the City to issue debt. Operating reserves are a significant factor considered in evaluating and assigning credit ratings by the bond rating agencies.

The City should maintain the following reserves:

1. The General Fund Balance in an amount equal to 5% of annual General Fund expenditures.

2. The Contingency Fund Balance in an amount equal to 5% of annual General Fund expenditures.

3. A 60 day reserve in enterprise funds in order to meet potential unanticipated needs.

4. All those revenues required by revenue bond indentures are to remain in complete compliance with bond issue covenants.

5.3 DEBT LIMITATIONS

Wisconsin Statutes, Section 67.03, and Section III, Article XI, of the Wisconsin Constitution limit the City's indebtedness to 5% of the equalized value of taxable property located within the City.

The City shall use the following limits to guide issuance of debt:

1. Direct and indirect debt as a percentage of equalized property value will not exceed 3%. (Indirect debt includes any general obligation debt issued by the City but not currently funded through the tax levy.)

2. Debt service shall not exceed 10% of total budgeted revenues. Includes all funds.

3. Overall net direct debt shall be less than $300 per capita. (Direct debt shall be any debt that is currently repayable through the tax levy.)

4. Indirect debt issues utilizing the taxing authority of the City will be subject to the industry standards as to recommend debt limits.

5. Based on Charter Ordinance No. 15 approved December 20, 1994, no general obligation bonds shall be issued by the City for street improvements or storm sewer projects in a cumulative annual amount in excess of $2,000,000. Requirements in excess of $2,000,000 shall be funded on an annual operating basis or be subject to referendum.

5.4 TERM AND REPAYMENT SCHEDULE

Principal repayment schedules will be based on the following guidelines:

1. Principal and interest will be scheduled to be within the revenues available for debt service.

2. Debt shall be issued in such a way so that the term of the financing does not exceed the useful life of the asset.

   (a) 10 years for most general obligation public improvement debt. Debt will be structured with even principal payments over the life of the issue.

   (b) 10 to 20 years for approved CDA capital improvement projects of city-wide significance and where justified by the magnitude of the project.

   (c) To demonstrate the City's commitment to a continued capital program, to ensure careful consideration of the level of capital expenditures, and to enhance the City's overall credit worthiness, the City will continue to fund at least <u>15%</u> of the overall capital program from current resources.

   (d) On an overall basis, all general obligation debt shall be structured to retire at least 80% of the City's indebtedness within 10 years.

5.5 METHOD OF SALE

Debt issues of the City may be sold by competitive, negotiated, or private placement sale methods unless otherwise limited by State law. The selected method of sale will be the option which is expected to result in the lowest cost and most favorable terms given the financial structure used, market conditions, and prior experience.
The City will use a competitive sale method for all debt issued unless there are compelling reasons which

indicate that a negotiated sale or private placement would have a more favorable result such as a financing structure which requires or involves:

* special pre-marketing efforts
* below investment grade credit rating
* complex security or transaction features
* factors that are expected to result in a lack of competitive bids
* a propriety or innovative financial concept brought to the City

5.6 TYPES OF DEBT AUTHORIZED TO ISSUED

Based on the purpose of the debt, the City may utilize any one or all of the debt vehicles authorized under the Wisconsin State Statutes. (Addendum #3)

The preferred debt type is General Obligation Promissory Notes with a term of 10 years or less with a fixed interest rate.

5.7 VARIABLE RATE DEBT

The City will consider variable rate debt only in the following circumstances:

* Interest rates are above average historic rates.
* The revenue stream for repayment is variable, or the dedication of revenues allows capacity for variability.
* Financing structure and budgetary safeguards are in place to prevent adverse impacts from interest rate shifts.
* A report from the Finance Division has been forwarded to City Council evaluating and quantifying the risks and returns involved in the variable rate financing and recommending variable rate as the lowest cost option.

5.8 CREDIT ENHANCEMENTS

The City will consider the use of credit enhancements on a case-by-case basis, evaluating the economic benefit versus cost for each case. Only when a clearly demonstrable savings can be shown shall an enhancement be considered. The City will consider each of the following enhancements as an alternative when evaluating the cost and benefit of such enhancements.

* **Bond Insurance.** The City shall have the authority to purchase bond insurance when such purchase is deemed prudent and advantageous. The predominant determination shall be based on such insurance being less costly than the present value of the difference in the interest on the bonds if uninsured.

* **Debt Service Reserves.** The City shall have the authority to issue bonds to fund a debt service reserve when deemed prudent and advantageous.

* **Reserve Equivalents.** The City shall have the authority to purchase reserve equivalents when such purchase is deemed prudent and advantageous. Such equivalents shall be evaluated in comparison to cash funding of reserves on a net present value basis.

* **Letters of Credit.** The City shall have the authority to enter into a letter-of-credit agreement when such an agreement is deemed prudent and advantageous.

5.9 SELECTION OF PROFESSIONAL SERVICES

The City will maintain ongoing agreements with certain professionals related to the issuance and management of debt including, but not limited to:

Bond Counsel To render opinions on the validity, enforceability and tax exempt status of the debt and related legal matters, and to prepare the necessary resolutions, agreements and other documents.

Financial Advisor To advise and assist on the structuring, rating and issuance of debt. (See Financial Advice)

Independent Auditors To provide certified computations and reports.

Competitive proposals will be taken periodically for services to be provided over a period of one year with annual review options. Selection criteria will consider such factors as:

* cost/fees
* experience/qualifications
* depth of staff
* availability/location

Annual reviews of the fees, quality of service, and performance of professional service firms will be completed by staff and reported to the Administration & Finance Committee.

Other financial services may be retained as required including managing underwriters, credit agencies, escrow agents, trustee, verification agents, and others. These services will be procured when in the best interest of the City by a competitive selection process.

All contracts for professional services will be in accordance with City approved contracting policies and procedures.

5.10 FINANCIAL ADVICE

It will be standard practice to retain an independent financial advisor on all debt issues of the City. To ensure that there will be no conflict of interest, financial advisors will not be allowed to underwrite debt of the City that they act as a financial advisor for.

In addition to the services of an independent financial advisor, the City may retain specialized consultants for complex or unique financing when deemed to be in the best interests of the City.

5.11 DISCLOSURE AND RECORD KEEPING

Official statements and other financial disclosure materials will be prepared based upon industry practices, regulatory requirements, and the *Disclosure Guidelines for State and Local Government Securities* prepared by the Government Financial Officers Association (GFOA) where applicable.

The Finance Division will develop and maintain a central system for all debt related records. At a minimum, this repository will include all official statements, bid documents, ordinances, indentures, and leases for all City debt. To the extent that official transcripts incorporate these documents, possession of the transcript will suffice.

5.12 ARBITRAGE REBATE COMPLIANCE

To the extent required by applicable laws, regulations and bond covenants, the City is responsible for compliance with the arbitrage rebate requirements. The City may use outside experts, including bond counsel, financial advisors, or public accountants, to assist in preparing returns and making payments. The City will annually determine any accrued rebate liability and make adequate provision for reserving funds for rebate purposes.

5.13 INVESTMENT OF PROCEEDS

Proceeds of debt issues will be invested in accordance with the City of West Allis Investment Policy, State Law (Chapter 34, Wisconsin Statutes), and legal requirements of the debt issue.

Investments will be managed to maximize interest earned with limited risk, subject to legal covenants, liquidity requirements, and tax law limitations.

5.14 DEBT SERVICE RESERVES

Debt service reserves funded by proceeds of debt or available cash may be created to secure debt issues of the City. Since these reserves may be subject to arbitrage rebate, they should be used only when required to market a specific type of debt, achieve a desired credit rating, or provide a needed liquidity source for a debt issue.

5.15 CREDIT RATING RELATIONS

The City will engage two or more bond rating agencies to rate the City debt issue.

Information will be submitted to the rating agencies upon their request for issues which have outstanding ratings.

The Department of Administration and Finance will inform the credit rating service(s) regarding material changes in financial condition and developing events which may influence outstanding or future ratings. The key factors that will be monitored include Economic, Debt, Administrative, and Fiscal factors. (A detail listing of each may be found in Addendum #5.)

All debt management functions will be designed in a manner to maintain or enhance the City's current credit ratings.

5.16 OPTIONAL REDEMPTION

Debt issues will customarily include an option by the City to redeem the outstanding principal after a specific date at a price at or above the par amount of the principal then outstanding. Exceptions will exist for shorter term debt (less than 10 years) for which optional redemption may have an adverse effect on the interest rate or marketability of the debt. The optional redemption terms will be determined based upon the following factors:

* Special requirements of the City due to program or business requirements.

* The earliest data at which bonds may be redeemed at the lowest price which does not have a material adverse effect on the price or marketability of the debt issue.

Notice of such redemption shall be mailed by registered or certified mail to the registered owners of the City's debt at the addresses shown on the City's registration books not less than 30 days prior to such redemption date. All notes for which the City exercises the right of redemption and for which proper notice has been given and adequate funds provided, shall cease to bear interest on the redemption date.

5.17 REFUNDING PROCEDURES AND PRACTICES

The City will consider refunding outstanding debt in order to:

* achieve interest rate savings
* restructure principal

* eliminate burdensome covenants with bondholders

Refunding undertaken more than 90 days prior to the call date are limited in number by Federal Regulations. Therefore, the benefit should be sufficient to offset the reduced future refunding flexibility.

The manner in which savings are realized (up front or on an annual basis) should be determined based on the overall needs of the City. In most instances, up front savings will be used to fund new capital purposes while annual savings will be used to reduce ongoing revenue or appropriations requirements.

Refunding involving a restructuring of the principal will be considered if there is no adverse affect on the credit rating or credit perception of the issue, or if the City can achieve a more favorable matching of revenues or other pledged resources to debt service payments. Restructuring of principal will seek to minimize the amount of refunding debt to be issued. Therefore, savings should be sufficient to offset the reduced future refunding flexibility.

Refunding undertaken to respond to a change of legal covenants or to make pledged reserves available for other purposes should determine any economic effects to the City as measured by the present value of savings inclusive of cash contributions and debt reserve earnings. Such economic effects include:

* Limitations imposed by the internal revenue code.
* Use of reserves.
* Future financing capacity.
* Future marketability of City debt.
* Credit ratings which may be related to the specific circumstances of the refunding.

Debt reserves which are released after a refunding shall not be used for operating expenses.