



## RIDGEWAY

208 Jarvis Street | Suite A | Ridgeway, WI 53582

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Iowa County, Wisconsin

### RESOLUTION 2022-17

#### A RESOLUTION ESTABLISHING A DEBT MANAGEMENT POLICY

**BE IT RESOLVED** that the Village Board of the Village of Ridgeway hereby adopts the following policy:

- 1. Statement of Policy.** The Village recognizes that the foundation of any well-managed program of capital financing is a comprehensive debt management policy. A debt policy sets forth the parameters for issuing debt and managing outstanding debt and provides guidance to decision makers regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt, method of sale that may be used and structural features that may be incorporated. The debt policy recognizes a binding commitment to full and timely repayment of all debt as an intrinsic requirement for entry into the capital markets. Adherence to the debt policy helps the Village to maintain a sound debt position and protect its credit quality. Further advantages of a debt policy are:
  - a. Enhances the quality of decisions by imposing order and discipline.
  - b. Promotes consistency and continuity in decision making.
  - c. Rationalizes the decision-making process.
  - d. Identifies objectives for staff to implement.
  - e. Demonstrates a commitment to long-term financial planning objectives.
  - f. Is regarded positively by the rating services in reviewing credit quality.
  
- 2. Capital Improvement Planning.** The Village will develop and maintain a multi-year Capital Improvement Plan (CIP) for consideration and adoption by the Village Board. The CIP will be for the coming five fiscal years and will be updated periodically. The CIP will contain the following information:
  - a. A description of each project.
  - b. A listing of the expected sources of funds for each project.
  - c. Estimated timing for each project.
  - d. An analysis of the debt financing required and the conformance of the planned financings with policy targets and the economic and fiscal resources of the Village to bear such indebtedness over the next five years.

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### 3. Limitations on Issuance of Debt

#### a. Legal Limits.

- i. General Obligation (G.O.) Debt Limit. The total principal amount outstanding of debt obligations carrying the G.O. pledge of the Village may not exceed an amount equal to five percent of the Village's equalized value (including any tax increments) as determined by the Wisconsin Department of Revenue. As identified in the "Affordability Targets" section of this policy, the Village has imposed on itself a more restrictive direct debt burden limitation range of 65% to 75% of the statutory debt limit.
- ii. Purpose and Authority. Debt obligations may be issued by the Village under the authority of, and for the purposes defined in the following Chapters or Sections of the Wisconsin Statutes:
  1. Chapter 24 – State Trust Fund Loans
  2. Chapter 67 – G.O. Bonds and Notes
  3. Section 67.12(1)(a) – Tax and Revenue Anticipation Notes
  4. Section 66.0621 – Revenue Obligations
  5. Section 66.1335 – Housing and Community Development
  6. Section 66.0701 through 66.0733 – Special Assessment B Bonds

#### b. Public Policy Limits.

- i. Purposes of Debt Issuance. In determining whether a particular project is appropriately financed with debt obligations, the Village Board will consider the following public policy objectives:
  1. It is the intent of the Village to cash fund projects, in whole or in part, as an alternative to debt financing when practical. It is recognized, however, that most major projects will contain some element of debt financing. This also serves to promote taxpayer equity by amortizing the costs of improvements over their useful lives, providing the Village the ability to charge those benefiting from the improvements over time.
  2. The Village may issue debt obligations to purchase capital assets and to fund infrastructure improvements when current revenues or fund balance/retained earnings are unavailable or reserved for other purposes.
  3. The Village may also issue debt obligations to provide funds for the implementation of economic development projects. These types of projects will normally be undertaken within a tax incremental district, with debt service repaid from future tax increment collections.
  4. The Village will not issue long-term debt obligations to provide funds for operating purposes. Issuance of short-term debt obligations to finance operating expenses will only be considered in the event of an extreme financial emergency.
- ii. Use of Derivatives. Derivatives are financial contracts or financial instruments whose value is derived from the value of something else (known as the underlying instrument). The Village will, as a general practice, not enter into contracts and financing agreements involving interest

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rate swaps, floating/fixed rate auction or reset securities or other forms of debt bearing synthetically determined interest rates. The only type of derivative that will be considered for use by the Village would be a State and Local Government Series (SLGS) Securities investment offered by the US Treasury or a Guaranteed Investment Contract (GIC) when used in conjunction with an advance refunding of the Village's debt. The interest rate earned on time deposit SLGS securities is one basis point below the current estimated Treasury borrowing rate for a security of comparable maturity. Generally, the Village will always use SLGS for advance refunding escrow accounts but in the event that SLGS are not available from the US Treasury, the Village would consider the use of a GIC but only after competitive proposals are taken from at least three vendors for same.

c. Financial Limits.

i. G.O. Debt.

1. Affordability & Debt Profile Targets. To provide for a capital financing program that is sustainable based on the financial resources of the Village, and to further maintain a credit profile that will allow the Village to maintain its current rating on outstanding debt issues, the following affordability and debt profile targets are established.

- a. Direct Debt Burden. The total principal amount of G.O. debt outstanding, expressed as a percentage of the Village's total equalized value, and as a total per capita. The Village has established a targeted range between 65% and 75% of the statutory debt limit for direct debt burden.
- b. Payout Over Ten Years. The percentage of outstanding G.O. debt principal that will be retired within ten years. The Village's target is repayment of no less than 100% of all outstanding principal within ten years.
- c. Tax Rate for Debt Service. The Village's annual G.O. debt service payment, net of any revenues used to reduce the levy amount needed, divided by the Village's equalized value reduced by any tax increments. The Village's targeted maximum tax rate for debt service is \$4.50.

ii. Revenue Debt. The Village may finance the capital needs of its revenue producing enterprise activities through the issuance of revenue-secured debt obligations. Prior to issuing revenue-secured debt obligations, the Village will develop financial plans and projections showing the feasibility of the planned financing, required rates and charges needed to support the planned financing, and the impact of the planned financing on ratepayers. The amount of revenue-secured debt obligations will be limited by the feasibility of the overall financing plan, as well as any existing covenants related to debt obligations with a claim to the same revenue source.

iii. Short-Term Debt.

1. Bond or Note Anticipation Note. Where their use is judged to be prudent and advantageous, the Village may choose to issue Bond or Note Anticipation Notes as a source of interim construction financing. Prior to their issuance, takeout financing must be planned for and determined to be feasible.
2. Tax and Revenue Anticipation Notes. In the event of an extreme financial emergency,

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the Village may issue Tax or Revenue Anticipation Notes to fund working cash flow needs. Before issuing such notes, cash flow projections will be prepared to ensure that funds will be available for timely repayment of the Notes.

- iv. Conduit Debt. The Village may sponsor conduit financings for those activities (i.e., economic development, housing, health facilities, etc.) that have a general public purpose and are consistent with the Village Board's overall service and policy objectives. All conduit financings must be non-recourse to the Village.

#### 4. Debt Structuring Practices.

- a. Maximum Term. The term of any debt obligations issued by the Village should not exceed the economic life of the improvements that they finance. If financially feasible, the term should be shorter than the projected economic life. Whenever possible, the term of obligations issued will be ten years or less.
- b. Interest Rates. Debt obligations issued by the Village will carry a fixed interest rate. If, in consultation with its Financial Advisor, the Village determines that a variable interest rate offers specific advantages, it may choose to issue securities that pay a rate of interest that varies according to a predetermined formula or results from a periodic remarketing of the securities.
- c. Debt Service Structure. Whenever possible, debt will be structured so that annual principal and interest payments are approximately level. If necessary, debt structures may be "wrapped" to accommodate existing debt service payments to allow for the Village's affordability targets to be maintained. Notwithstanding the foregoing, the Village will attempt to structure debt so that interest payments are due not later than the first fiscal year following issuance, and principal payments not later than the second fiscal year following issuance. The Village will avoid "balloon" repayment schedules that consist of low annual principal payments and one large payment due at the end of the term. An exception to the foregoing would be cases where it is anticipated that the Village will have funds on hand sufficient to retire the balloon payment (e.g. tax increments, impact fees, land sale proceeds).
- d. Capitalized Interest. The Village may elect to capitalize interest for any debt obligation, but depending on timing of issuance, it should first consider budgeting for the estimated interest expense, or appropriating the funds from other available sources. An exception to this policy would be cases where obligations are issued to finance projects within tax increment districts, and current district increment collections are projected to be insufficient to make interest payments. In these cases, the Village will normally capitalize interest.
- e. Call Provisions. Call provisions for debt obligations will be made as short as possible consistent with achieving the best interest rates possible for the Village. Obligations shall be callable at par.

#### 5. Debt Issuance Practices

- a. Competitive Sale. The Village will issue its debt obligations through competitive sale unless it is determined by the Village and its Financial Advisor that a competitive sale would not be expected to produce the best results for the Village. If the Village determines that bids received through a competitive sale are unsatisfactory, or in the event no bids are received, the Village may enter into negotiation for sale of the obligations

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- b. Negotiated Sale. The Village may consider negotiated sales of debt obligations in extraordinary circumstances when the complexity of the issue requires specialized expertise, when the negotiated sale would result in substantial savings in time or money, or when market conditions or Village credit are unusually volatile or uncertain. If the Village elects to negotiate the sale of a debt obligation, it will utilize a Financial Advisor with no interests in the underwriting of the transaction to represent it.
- c. State and Federal Revolving Loan Funds and Pools. As an alternative to open market financing, the Village may elect to seek a loan through State or Federal programs when this will provide advantages to the Village with respect to costs, interest rates, or terms. Examples of available loan programs include State Trust Fund Loans, Clean Water Fund Program Loans, Safe Drinking Water Fund Program Loans, and USDA Rural Development Loans.
- d. Refunding.
- i. Advance Refunding. Federal tax law allows debt obligations to be refinanced one time prior to the obligation's earliest pre-payment date (call date). The Village may issue such advance refunding bonds when legally permissible, and when net present value savings, expressed as a percentage of the par amount of the refunding bonds, equal or exceed a target of two percent.
  - ii. Current Refunding. Current refunding bonds may be issued to refinance existing debt obligations no earlier than sixty days prior to the obligation's earliest pre-payment date (call date). There is presently no limit to the number of times that an issue may be current refunded. The Village may issue current refunding bonds when legally permissible, and whenever doing so is expected to result in a net economic benefit to the Village.
  - iii. Restructuring of Debt. Independent of potential savings, the Village may choose to refund debt obligations when necessary to provide for an alternative debt structure. Refunding may also be undertaken as a means to replace and modernize bond covenants essential to management and operations.
- e. Credit Rating.
- i. Rating Service Relationships. The Village Treasurer is responsible for maintaining relationships with any rating service that currently assign ratings to the Village's debt obligations. This effort shall include providing periodic updates on the Village's general financial condition along with coordinating meetings and presentations in conjunction with a new debt issuance. The Village's Financial Advisor will assist in this effort.
  - ii. Use of Rating Services. The Village Treasurer, in consultation with the Village's Financial Advisor, is responsible for determining whether or not a rating shall be requested on a particular financing, and which rating service(s) will be asked to provide a rating.
  - iii. Minimum Long-Term Rating Requirements. The Village's minimum rating requirement for its long-term G.O. debt is "A" or higher. If a debt obligation cannot meet this requirement based on its underlying credit strength, then credit enhancement may be sought to achieve the minimum rating. If credit enhancement is unavailable or is determined by the Village Treasurer and the Village's Financial Advisor to be uneconomical, the obligations may be issued without a rating.

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## 6. Debt Management Practices

- a. Continuing Disclosure. The Village is committed to continuing disclosure of financial and credit information relevant to its outstanding debt obligations and will abide by the provisions of Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary market disclosure. The Village Clerk is responsible for providing ongoing disclosure information and may be assisted by the Village's Financial Advisor in the execution of this task.
  - b. Investment of Debt Proceeds. The Village will temporarily invest the proceeds of debt obligations in accordance with its investment policy. Interest earnings realized within construction accounts will be applied first towards payment of project costs, then for payment of debt service associated with the obligations.
  - c. Arbitrage Rebate and Monitoring. The Village Treasurer will establish and maintain a system of record keeping and reporting to meet arbitrage rebate compliance requirements of the federal tax code. This effort will include tracking investment earnings on proceeds of debt obligations, calculating rebate payments in compliance with tax law, and remitting any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the Village's outstanding debt obligations. Additionally, general financial reporting and certification requirements embodied in bond covenants shall be monitored to ensure that all covenants are complied with. The Village's Financial Advisor may assist in the execution of these tasks.
7. **Review.** It is the intent of the Village Board that this Debt Management Policy be reviewed annually and revised as necessary.

*The above and foregoing Resolution was duly adopted by the Village Board of the Village of Ridgeway at its meeting held on \_\_\_\_\_, 2022, by a vote of \_\_\_\_\_ in favor, \_\_\_\_\_ opposed, and \_\_\_\_\_ not voting.*

APPROVED:

By \_\_\_\_\_  
Michele B. Casper, Village President

ATTEST:

By \_\_\_\_\_  
Hailey E. Roessler, Village Clerk