

		<p style="text-align: center;">Policy 501.04.06 Debt</p>			
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Special Instructions:					

I. PURPOSE

~~The debt policy ensures that the City's debt:~~

~~A. does not weaken the City's financial structure; and~~

~~B. provide limits on debt to avoid problems in servicing debt.~~

~~This policy is critical for maintaining the best possible credit rating.~~

The Debt Management Policy is designed to set a comprehensive framework for the utilization, administration, and disclosure of the City's debt financing. Its foremost aim is to establish criteria for employing debt, while concurrently striving to minimize the costs associated with debt service and issuance. A key goal is to preserve a robust credit rating in the financial sector and ensure transparent and thorough financial reporting. Moreover, the City's financing activities will align with this policy and comply with relevant federal legislation, U.S. Securities and Exchange Commission (SEC) regulations, Wisconsin State Statutes, City Code, and other pertinent regulatory mandates.

The City's Debt Management Policy serves as a directive for City staff, guiding them in proposing debt in a manner that demonstrates the City's efficient management and financial stability, ultimately securing financing at the most favorable rates. The obligation to recommend debt on behalf of the City falls upon the Finance Director, or their appointee. Following the approval of the Common Council, the Finance Director is tasked with coordinating to guarantee that all financial transactions are conducted in strict adherence to applicable laws and regulations. Significant alterations to this policy require the endorsement of the Common Council.

II. GUIDELINES

Debt functions as a financing instrument, applicable when the City possesses the requisite legal, financial, and market debt capacities. Its consideration is appropriate under circumstances where one or more of the following conditions are present:

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- The City will use regularly occurring revenues to fund current operation costs; long term debt will not be used for operating costs.
- The City will confine long-term borrowing to capital improvements and development that have a life of more than 5 years and cannot be financed from current revenues.
- The City will pay back debt within a period not to exceed the expected life of the improvements.
- ~~The City will not exceed 5 percent of the market value of taxable property for general obligation debt per state statutes. The City recognizes that bond anticipation notes are not general obligation debts per State Statutes, however, it is a policy to include the bond anticipation notes when calculating the 5% debt service borrowing limit.~~
- The City will maintain good communications with bond rating agencies about its financial condition and will follow a policy of full disclosure in every financial report and bond prospectus. The City will comply with Securities Exchange Commission (SEC) reporting requirements.
- The City will follow a policy of full disclosure on financial reports and bond prospectus.
- The City will refinance or call any debt issue when beneficial for future savings.
- It is recognized that General Obligation (G.O.) Debt issued to support the Capital Improvement Program (C.I.P.) carries the full faith and credit of the City, however, the utility portion of State Shared Revenues, which is recognized in the General Fund, shall be used to offset the associated debt service and cash flow requirements of the Capital Improvements Program.
- Financing of certain equipment or projects with long-term debt (10 to 20 years) is undertaken every two years.

Types of Permitted Debt

The City is authorized to employ various forms of municipal debt obligations to achieve its financing goals. All long-term debt financing must receive approval from the Common Council. Below is a catalog of the types of debt permitted for the City, along with the general guidelines for their utilization:

General Obligation Debt

The City is sanctioned to issue general obligation debt in several forms, including promissory notes, State Trust Fund loans, refunding bonds, and corporate purpose bonds. The duration of any general obligation debt is restricted to a maximum of 20 years from the initial date of issuance.

Legal Debt Capacity

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Pursuant to [Wisc. Stat. §67.03 \(1\) \(a\)](#), the City's total general obligation debt is capped at 5 percent of the equalized value of taxable property within its jurisdiction. It is the City's objective to keep its debt ratio **at or below 70 percent** of this legal debt limit.

Net Direct General Obligation Debt/Full Value

The Common Council aims to uphold a per capita general obligation debt ratio within the range of 2-4%. Maintaining this ratio is pivotal for ensuring that sufficient resources are available for the repayment of outstanding long-term general obligation debt, without imposing excessive financial strain on the community.

The general obligation debt ratio is calculated based on the total outstanding general obligation long-term debt as of December 31 each year, in relation to the equalized value from the most recent year. When planning capital projects and their proposed financing, the impact on this ratio should be considered. It is important to note that general obligation debt underpinned by sources other than general obligation property tax revenues is not included in this ratio. The Finance Department bears the responsibility of annually computing the general obligation debt ratio.

Debt Service/Total Revenue

The goal of the City is to not exceed a maximum 15% ratio of property tax supported debt service costs to total government fund revenues. This will ensure that the City maintains its ability to repay outstanding debts.

This ratio will be measured by annual property tax supported debt service cost in relation to annual revenues for all government funds. A maximum ratio of fifteen percent is desired, and future borrowing will be structured to maintain this ratio. General obligation debt supported by funds other than the general property tax revenues will not be included in this ratio. This will be calculated after the annual audit by the Finance Department.

Debt Service Repayment

The objective is to ensure that the City's general obligation debt is repaid within a timeframe of 20 years, whereas debt incurred for equipment purchases is to be settled within a span of 10 years.

Revenue Bonds

Chapter 66.066 of the Wisconsin State Statute regulates the issuance of revenue bonds. The duration for these revenue bonds is confined to a maximum of 40 years from the date of their original issuance.

Revenue Bond Uses

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Revenue bond issues are designated exclusively for the purpose of purchasing, acquiring, leasing, constructing, expanding, augmenting, enhancing, conducting, controlling, operating, or managing a public utility. Additionally, these funds are allocated for covering the expenses of any necessary subsequent additions, improvements, and extensions related to these utilities.

Interest Payments

The interest accruing on the revenue bonds is to be disbursed to the bondholders in accordance with the interest schedule delineated by the debt schedule. As for the principal payment on these revenue bonds, it must commence no later than three years following the issuance date, or two years subsequent to the projected completion date of the relevant project, depending on which of these dates occurs later.

State Trust Fund Loans

Other Obligations

In certain special circumstances, other forms of debt may be deemed appropriate and beneficial for the City. The utilization of such alternative debt forms can be assessed by the Finance Director, or their designee, on an individual case basis. Should these other types of debts be employed, it is imperative that all relevant state and federal guidelines are adhered to.

Bond Record Retention

The Finance Department is responsible for maintaining all records in strict compliance with the rules and regulations applicable to bonds as per the relevant code and laws. This includes:

- The transcript of proceedings, often referred to as the official “record book”.
- Detailed information on the expenditure of bond proceeds, including any investment earnings on the bonds. This may encompass invoices, checks, or other relevant financial documents.
- Records concerning the usage of the project financed by the bonds or any prior project, particularly any instances of private business use.
- Documentation including records, certifications, and legal opinions related to any change in the use of the project or a prior project, which may also involve certificates and opinions regarding remedial actions.
- Comprehensive documentation related to the investment of the bond proceeds. This encompasses bank or account statements, confirmations of the purchase and sale of securities, yield calculations for each class of investments, actual investment income received from the investment of proceeds, details of guaranteed investment contracts, and calculations related to rebate obligations.

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Retention: Final Payment

The Finance Department is obliged to retain these records for a minimum duration of three years following the final payment of the bonds, or the final payment of any issue or issues of tax-exempt bonds or notes that have been utilized to refund the bonds.

Retention: Refunding

In the event that the bonds are refunded at a future date, the Finance Department is required to maintain the aforementioned records until three years subsequent to the final redemption of the refunding obligations.

Arbitrage

Arbitrage rebates are payments made to the government with the aim of averting several potential issues. These include preventing the issuance of a greater number of bonds than necessary, inhibiting the premature issuance of bonds, and ensuring that bonds do not remain outstanding for longer than required.

The City is committed to utilizing bond proceeds exclusively for the specific purposes and under the authority for which the bonds were issued. Generally, the City aims to avoid arbitrage rebates and will adhere to the relevant exemptions. However, there may be scenarios where the City opts to pay the arbitrage rebate. In such cases, the rationale behind this decision will be clearly outlined by the Finance Department at the time of issuing the bonds.

Exemptions

Under 26 U.S. Code 148, exemptions for arbitrage rebate that the City should follow includes:

Small Issuer Exception

- The issue is issued by a governmental unit with general taxing powers;
- The aggregate face amount of all tax-exempt bonds issued by the City during the calendar year is not to exceed \$5 million;
- No bond which is part of such issue is a private activity bond;
- At least 95 percent of the net proceeds of such issue are to be used for local government activities by the issuer;

Spending (spend down) Over \$5 Million Exceptions

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- 6 months – 10 percent of bond proceeds
 - 12 months – 45 percent of bond proceeds
 - 18 months – 75 percent of bond proceeds
 - 24 months – 100 percent of bond proceeds (If the City can spend down 95 percent of the bond within the 24 months, the City shall have 36 months to spend down 100 percent of the bond)
- “Bona fide” debt service funds, subject to a limit of \$100,000 on annual earnings in the case of private activity bonds or governmental bonds that do not have a fixed rate of interest and a maturity of at least five years
 - Payment of 1.5 percent penalty in lieu of arbitrage rebate no later than 90 days after the end of the spending period to which it relates
 - Proceeds invested in tax-exempt obligations

Spend Down Schedules and Exceptions

During the process of issuing any type of debt, the Finance Department working with the project manager will provide spend down estimates of the debt. The Finance Department is also responsible for monitoring the actual spending of the debt and exercise best efforts to spend down bond proceeds in such a manner that the City will meet one of the spend-down exemptions from arbitrage rebate.

Spend down exceptions provide for the majority, 95 to 100 percent, of the bond proceeds to be spent down within two years of the issuance of debt. The specific date of the spend down goal shall be the settlement day/close date of the debt.

Reporting

All of the City’s tax-exempt issues, including lease purchase agreements, are subject to arbitrage compliance regulations. In accordance with IRS recommended practices, the Finance Department shall calculate arbitrage rebate computations no later than each five-year anniversary date of the issuance of the bond and at the final maturity for all bonds.

If any arbitrage rebate liability exists, the Finance Department shall report such liability in the

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year-end financial statements.

Arbitrage Rebates

Arbitrage rebates were created as a financial disincentive in order to prevent abuses. According to 26 U.S. Code 148, the arbitrage rebate will be treated as meeting the requirement only if an amount equal to the sum of the excess of the following is paid to the United States by the issuer:

- The excess of the amount earned on all nonpurpose investments and any income attributable to the excess amount earned;
- The amount which would have been earned if such nonpurpose investments were invested at a rate equal to the yield on the issue

Due Date of Arbitrage Rebate Payments

The amount which is required to be paid to the Internal Revenue Service (IRS) by the Finance Department, or financial consultant, shall be paid in installments which are made at least once every 5 years. Each installment shall be in an amount which ensures that 90 percent of the required amount is paid. The last installment shall be made no later than 60 days after the day on which the last bond of the issue is redeemed and shall be in an amount sufficient to pay the remaining balance that the City is required to pay.

A series of issues which are redeemed during a 6-month period shall be treated as one issue for purposes of the preceding sentence if no bond which is part of any issue in such series has a maturity of more than 270 days or is a private activity bond.

In the case of a tax and revenue anticipation bond, the last installment shall not be required to be made before the date 8 months after the date of issuance of the issue of which the bond is a part.

Continuing Disclosure

The City's debt obligations fall under the purview of SEC Rule 15c2-12 (the Rule), which governs the timing and preparation of disclosure documents by brokers, dealers, and underwriters involved with the City's securities. This regulation is instrumental in ensuring transparency and compliance in the handling of the City's financial instruments.

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Dealer's Requirements

The Rule mandates that dealers, when underwriting specific types of municipal securities, must ensure that the City, as the issuer of the bonds, enters into an agreement to supply ongoing information about the securities to the Municipal Securities Rulemaking Board (MSRB). This requirement is essential for maintaining transparency and regular disclosure of relevant data concerning the municipal securities in question.

Required Information

Continuing disclosure agreements must require the following information:

Annual Financial Information

- The City's financial information and operating data as included in original official statement;
- The City's audited financial statements

Event Notices

Notice of any of the following 14 listed events with respect to the City's debt obligations must be reported within 10 business days:

- Principal and interest payment delinquencies;
- Non-payment related defaults;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions or events affecting the tax-exempt status of the security;
- Modifications to rights of security holders;
- Bond calls and tender offers;
- Defeasances;
- Release, substitution or sale of property securing repayment of the securities;
- Rating changes;
- Bankruptcy, insolvency or receivership;
- Merger, acquisition or sale of all issuer assets;
- Appointment of successor trustee

The following events with respect to the City's debt obligations can be voluntarily reported within 10 business days:

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- Amendment to continuing disclosure undertaking;
- Change in obligated person;
- Notice to investors pursuant to bond documents;
- Certain communications from the Internal Revenue Service;
- Secondary market purchases;
- Bid for auction rate or other securities;
- Updates to capital or other financial plans;
- Quarterly strategic plan updates;
- Litigation/enforcement action;
- Change of tender agent, remarketing agent, or other on-going party;
- Derivative or other similar transaction;
- Other event-based disclosures

Exemptions

Continuing disclosure generally is not required for an issue if:

- The entire issue is for less than \$1 million;
- The bonds are sold to investors in units of no less than \$100,000 and are sold to no more than 35 sophisticated investors;
- The bonds are sold in \$100,000 minimum denominations and mature in nine months or less from initial issuance;
- The bonds were issued prior to July 1995 (or prior to December 1, 2010 for certain “puttable” securities.)

Electronic Municipal Market Access (EMMA)

EMMA provides free online access to disclosure information for municipal obligations. The Finance Department, or contracted financial consultant, must provide continuing disclosure documents electronically to the Municipal Securities Rulemaking Board through EMMA annually by the date specified in the continuing disclosure agreement, generally within 365 days of the year end.

Contracted Financial Consultant

The City may contract with a financial consultant to help comply with its continuing disclosure agreements, certificates and undertakings associated with each issue of securities subject to the

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Rule.

Reporting

In the event for which an event notice is to be filed, the Finance Director, or designee, shall provide disclosure information related to the event to EMMA, as required.

Selecting and Retention of Service Providers

The City acknowledges the specialized nature of the municipal bond industry and the potential necessity to engage expert consultants. It is the responsibility of the Finance Director, or their appointee, to devise a process for soliciting and selecting professional services essential for the implementation of the City's debt management policy. The types of contract advisors that can be retained for the City include:

- Underwriters
- Bond Counsel
- Special Counsel
- Financial Advisor

In the context of the City's debt management policy, professional financial consultants may be selected through a request for qualifications (RFQ) process. If this approach is adopted, the RFQ process will be structured to identify service providers who present the most advantageous blend of expertise and cost for the City. The primary goals of this process will be to:

- Promote competition;
- Be as objective as possible;
- Incorporate clear and rationale selection criteria;
- Be independent of political influence;
- Be perceived as fair by the respondents;
- Result in cost-effective transaction;
- Result in the selection of the most qualified firm(s)

While the City is not obligated to choose the firm proposing the lowest price, in instances where the lowest bidder is not selected, the Finance Director, or their designee, must furnish a justification for this recommendation. All such contracts are subject to approval by the Common Council.

Credit Ratings

Should there be any alterations in the City's credit ratings, it is the responsibility of the Finance Director to promptly notify the Common Council and the City Administrator of these changes.

Rating Agency Relationships

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The Finance Director bears the responsibility for sustaining relationships with the rating agencies that assign ratings to the City's diverse debt obligations. This duty encompasses the provision of regular updates on the City's financial status and coordinating meetings in conjunction with the issuance of new debt. The aim of these efforts is to ensure that the rating agencies are kept well-informed about the City's financial health and strategic initiatives.

Use of Rating Agencies

The Finance Director holds the responsibility of deciding whether to request a credit rating for a specific financing and, if so, determining which of the major rating agencies will be solicited to provide such a rating. This decision-making process is crucial for assessing the creditworthiness and market perception of the City's financial undertakings.