VILLAGE OF WINFIELD

DEBT MANAGEMENT POLICY

WINFIELD

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A PLACE TO DISCOVER

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Village of Winfield, Illinois
Debt Management Policy

A. Purpose and Goals

This Debt Management Policy is established to provide comprehensive guidelines for planning and reviewing financing proposals for the the acquisition or construction of capital assets. It is the objective of this policy that the Village maintain a fiscally sound debt position and protect the credit quality of its obligations.

In following this policy, the Village shall pursue the following specific goals:

1. Maintain no less than an A3 credit rating for all debt at the time of issue so borrowing costs are minimized and access to credit is preserved.

2. Maintain the ability to incur present and future debt at minimal interest rates in amounts needed for infrastructure and economic development without endangering the ability to finance essential services.

3. Effectively utilize debt capacity in relation to Village growth and the tax base, or utility rate base to manage debt in line with available resources.

4. Establish reasonable debt level targets that recognize projected inflation and planned capital needs.

5. Determine the amortization (maturity) schedule which will best fit with the overall debt structure of the Village. Consideration will be given to coordinating the length of the issue with the lives of assets, whenever practical, while considering repair and replacement costs of those assets to be incurred in future years as an offset to the useful lives, and the related length of time in the payout structure.

6. Consider the impact of such new debt on overlapping debt and the financing plans of local governments which overlap, or underlie the Village.

7. Seek opportunities to finance debt service for general obligation debt with revenues other than property taxes.

8. Consider opportunities such as refinancing or restructuring of general obligation debt which reduce existing debt service.

9. Utilize “Pay-As-You-Go” funding for capital projects to the extent possible and obtain financing only when necessary.

B. <u>Legal Constraints</u>

In the issuance and management of debt, the Village shall comply with the Illinois Compiled Statutes and all other legal requirements imposed by federal, state and local rules and regulations, as applicable. The following section highlights the legal framework of the debt issuance process:

1. <u>Illinois State Compiled Statutes</u>

   30 ILCS 305/0.01, et. seq.: the short title is "The Bond Authorization Act."

2. <u>Authority for Debt</u>

   The Village may, by bond ordinance, incur indebtedness or borrow money, and authorize the issue of negotiable obligations, including refunding bonds, for any capital improvement of property, land acquisition, or any other lawful purpose except current expenses, unless approved by the Village Board.

3. <u>Debt Limitation</u>

   Under Illinois Compiled Statutes the Village's general obligation bonded debt issuances are subject to a legal limitation based on 8.625% of the equalized assessed value of real estate property.

   As a non-home-rule municipality, the Village is subject to the provisions of 65 ILCS 5/8-4-1 which provides that bonds may not be issued until the authority to issue these bonds has been approved by a majority of the voters. A general exception in section 65ILCS 5/8-5-16 provides that non-home rule municipalities may issue General Obligation bonds without referendum up to the total outstanding amount not to exceed one-half of one percent (1/2%) of equalized assessed value.

   The Village is subject to debt limitations imposed by Illinois Property Tax Extension Limitation Law (PTELL). PTELL allows the issuance of an amount of general obligation debt equal to the aggregate extension for principal and interest payments for non-referendum bonds that the Village issued prior to January 1, 1997.

4. <u>BINA Notification</u>

   Municipalities preparing to issue non-referendum general obligation bonds, including alternate bonds or limited bonds, must comply with the notice and hearing requirements of the Bond Issue Notification Act (BINA) in 30 ILCS 352/1.

5. Types of Debt

a. General Obligation Referendum Bonds

General Obligation Referendum Approved Bonds are secured by the property taxes levied for their discharge. The Village is authorized to issue these bonds if approved by the voters under 65 ILCS 5/8-4-1.

b. General Obligation Non-Referendum Bonds

General Obligation Non-Referendum Bonds (Limited) are general obligation bonds that are issued without referendum. Limited bonds are secured by the property taxes levied for their discharge. The Village is currently authorized to issue General Obligation Non-Referendum Bonds up to a limit of one-half of one percent (1/2%) of the current equalized assessed valuation without voter approval under section 65ILCS 5/8-5-16.

c. Alternate Revenue Source Bonds

General Obligation Alternate Revenue Source Bonds are not subject to the Legal Debt limitations, but are secured with pledged revenues with a property tax levy pledge as a secondary security and issued in accordance with section 30 ILCS 350/15.

The Village may seek to finance the capital needs of governmental activities and its revenue producing enterprise funds through the issuance of Alternate Revenue Source debt obligations. These debt obligations are payable from various limited revenue sources. Revenue sources pledged for enterprise funds include water and sewer revenues and commuter parking revenues. The Village may only pledge up to 25% of the annual revenue received for debt service. For example, debt service payments for the most recent fiscal year represented 7.75% of pledged revenues.

Prior to issuing Alternate Revenue Source debt obligations, the Finance Director and Village Manager, with assistance from an independent financial advisor as needed, 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 rate payers, property owners and the other affected parties. On an annual basis, the Village will review the percent of revenue stream that is pledged for repayment of debt for compliance with Village limitations. If it is not feasible to issue an Alternative Revenue obligation, then a revenue-secured debt obligation should be considered.

The Village shall maintain a minimum debt service coverage ratio of 125%.

d. Debt Certificates

Debt Certificates may be issued by the Village to evidence the payment obligation of the Village under an installment contract or lease. Debt certificates are counted in the legal debt limit but not subject to voter approval in accordance with 30 ILCS 350/17(b).

e. Lease/Installment Contracts
The Village may enter into long-term lease/installment obligations for the purchase of real or personal property. Lease/Installment Contracts are counted in the legal debt limit in accordance with 30 ILCS 350/17(a).

f. Tax Increment Financing (TIF)

TIF provides for the temporary allocation to redevelopment districts of increased tax proceeds (known as "increment") in an allocation area generated by increases in assessed value. Accordingly, TIF proceeds permit the Village to use increased tax revenues stimulated by redevelopment to pay for the capital improvements needed to induce the redevelopment. TIF debt shall be in compliance with the specific TIF redevelopment agreement.

C. Debt Issuance Practices

1. Authority and Purposes of the Issuance of Debt

The laws of the State of Illinois authorize the issuance of debt by the Village. The Local Bond Law confers upon municipalities the power and authority to contract debt, borrow money, and issue bonds for public improvement projects as defined therein. Under these provisions, the Village may contract debt to pay for the cost of acquiring, constructing, reconstructing, improving, extending, enlarging, and equipping such projects or to refund bonds.

2. Debt Issuances Types

a. *Short Term Debt (three years or less):* The Village may issue short-term debt which may include, but not be limited to, bond anticipation notes or variable rate demand notes, those instruments which allow the Village to meet cash flow requirements or provide increased flexibility in financing programs.

b. *Long Term Debt (more than three years):* The Village may issue long-term debt which may include, but not limited to, general obligation bonds, debt certificates, capital appreciation bonds, special assessment bonds, self-liquidating bonds and double barreled bonds. The Village may also enter into long-term leases for public facilities, property, and equipment with a useful life greater than one year.

3. Structure of Debt Issuances

The duration of a debt issue shall not exceed the economic or useful life of the improvement or asset that the issue is financing. The Village shall design the financing schedule and repayment of debt so as to take best advantage of market conditions and, as practical, to recapture or maximize its credit capacity for future use, and moderate the impact to the taxpayer.

4. Professional Services

The Village recognizes the nature of the municipal bond industry such that specialized consultants may need to be retained. The Village will strive to retain those consultants who will best advise them on individual issues and the overall debt program. In general, a competitive selection process will be used in the selection of any consultants. The consultants include:

a) *Financial Advisor:* A Financial Advisor will be used to assist in the issuance of the Village's debt. The Financial Advisor will provide the Village with objective advice and analysis on debt issuance. This includes, but is not limited to, monitoring market opportunities, structuring and pricing debt, and preparing official statements of disclosure. In compliance with the 2010 Dodd-Frank Act, municipal advisors must register with the Securities and Exchange Commission (SEC). In addition, the Municipal Securities Rulemaking Board (MSRB) Rule G-23 prohibits a broker-dealer firm from serving as a municipal advisor and the underwriter on the same transaction.

b) *Bond Counsel:* All debt issued by the Village will include a written opinion by bond counsel affirming that the Village is authorized to issue the proposed debt. The opinion shall include confirmation that the Village has met all local and state constitutional and statutory requirements necessary for the issuance, a determination of the proposed debt's federal income tax status, and any other components necessary for the proposed debt.

c) *Underwriters:* An underwriter will be used for all debt issued in a negotiated sale method. The underwriter is responsible for purchasing negotiated debt and reselling the debt to investors.

d) *Fiscal Agent:* A fiscal agent will be used to provide accurate and timely securities processing and timely payment to bondholders.

5. Sale of Securities

The Village shall seek to issue its general obligation debt i through a competitive bidding process based upon the lowest offered True Interest Cost (TIC), unless the Village Board deems a negotiated sale the most advantageous to the Village.

6. Markets

The Village shall make use of domestic capital markets when the conditions best fit the Village's financing needs.

7. Credit Enhancements

The Village may enter into agreements with commercial banks or other financial entities for the purpose of acquiring letters of credit, municipal bond insurance, or other credit enhancements that will provide the Village with access to credit under terms and conditions as specified in such agreements when their use is judged cost effective or otherwise advantageous. Any such agreements shall be approved by the Village Board.

8. Methods of Sale

The Village shall seek to sell all bonds at a public sale via sealed proposal or live auction, except that bonds may be sold at a private sale in accordance with 30 ILCS 350/10. The Village may issue temporary notes by negotiated sale if the bond ordinance or subsequent resolution so provides.

a. *Direct Debt, including Bonds and Certificates:* All direct debt obligations will mature within the period or average period of usefulness of the assets financed; and the debt will mature in installments, the first of which is payable not more than five years from the date of the issue. Term debt may be allowable if recommended by the Village's financial advisor, in lieu of a fixed maturity schedule, and approved by the Village Board.

b. *Financial Advisor*: As a matter of independence, the Financial Advisor will not bid on nor underwrite any Village debt issues on which it is advising.

9. Credit Implications

When issuing new debt, the Village should not exceed credit industry benchmarks where applicable. Therefore, the following factors should be considered in developing debt issuance plans (for illustration purposes, current represents values based on FY 2018-19 Comprehensive Annual Financial Report):

a. *Ratio of Net Bonded Debt to Equalized Assessed Value*: The formula for this computation is Net Bonded Debt, which is the total outstanding debt divided by the current Equalized Assessed Value as determined by the Township Assessors.

Current	Ceiling
0.73	4.00

b. *Net Bonded Debt Per Capita*: The formula for this computation is Net Bonded Debt divided by the current population as determined by the most recent census information available.

Current	Ceiling
$281	$2,000

c. *Ratio of Outstanding Debt to Personalized Income:* The formula for this computation is Outstanding Debt, which is the total outstanding debt divided by the current personal income as determined by the most recent census information available.

Current	Ceiling
0.98%	4.00%

d. *Ratio of Annual Debt Service to General Government Expenditures*: The formula for this computation is annual general debt service expenditures divided by General Government (i.e., General, Special, and Debt Service Funds) expenditures (excluding certain interfund transfers).

Current	Ceiling
4.21	10.00

Total indebtedness including direct and overlapping debt will be analyzed in determining financial condition.

D. Debt Management

1. Financial Disclosures

   The Village is committed to complete and accurate market disclosure in accordance with the requirements under the federal securities laws, including rules and regulations established by the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB). The Village shall prepare appropriate disclosures as required by the S EC, the federal government, the State of Illinois, rating agencies, underwriters, investors, agencies, taxpayers, and other appropriate entities and persons to ensure compliance with applicable laws and regulations.

   a) *Primary:* The Village will follow professional and market standards in the preparation of official statements and facilitate the distribution of the official statements in a timely manner to allow investors adequate time to make their investments.

   b) *Continuing:* The Finance Director will be responsible for submitting the annual disclosure required in accordance with SEC Rule 15c2-12 to the MSRB within 180 days after the end of the fiscal year. The Village will keep current with any changes in both the administrative aspects of the filing requirements and the MSRB's national repository to ensure issuer compliance with continuing disclosure requirements. In the event a material event occurs that requires immediate disclosure notification to the parties impacted, the Finance Director will report this in the MSRB system within 10 days of the event, in accordance with SEC Rule 15c2-12.

2. Review of Financing Proposals

   All capital financing proposals that involve a pledge of the Village's credit through the sale of securities, execution of loans or lease agreements and/or otherwise directly involve the lending or pledging of the Village's credit shall be referred to the Finance Director and Village Manager who shall determine the financial feasibility, and the impact on existing debt of such proposal, and shall make recommendations accordingly to the Village Administration and Finance Committee.

3. Establishing Financing Priorities

   The Finance Director and Village Manager shall administer and coordinate the Village's debt issuance program and activities, including timing of issuance, method of sale, structuring the issue, and marketing strategies. The Finance Director and Village Manager along with the Village's financial advisor shall meet, as appropriate, with the Village Administration and Finance Committee and the Village Board regarding the status of the current year's program and to make specific recommendations.

4. Ratings Agency Relations

The Village shall endeavor to maintain effective relations with the rating agencies. The Village Manager, Finance Director and the Village's financial advisors shall meet with, make presentations to, or otherwise communicate with the rating agencies on a consistent and regular basis in order to keep the agencies informed concerning the Village's capital plans, debt issuance program, and other appropriate financial information.

5. Investment Community Relations

The Village shall endeavor to maintain a positive relationship with the investment community. The Finance Director, Village Manager and the Village's financial advisor shall, as necessary, prepare reports and other forms of communications regarding the Village's indebtedness, as well as its future financing plans. This includes information presented to the press and other media.

6. Refunding Policy

The Village shall consider refunding outstanding debt when legally permissible and financially advantageous. A net present value debt service savings of at least three percent or greater must be achieved.

7. Investment of Borrowed Proceeds

The Village acknowledges its ongoing fiduciary responsibilities to actively manage the proceeds of debt issued for public purposes in a manner that is consistent with federal and Illinois statutes that govern the investment of public funds, and consistent with the permitted securities covenants of related bond documents executed by the Village. The management of public funds shall enable the Village to respond to changes in markets or changes in payment or construction schedules so as to (i) optimize returns, (ii) insure liquidity, and (iii) minimize risk. The Village will structure and time its debt issues such that the investment of bond proceeds will minimize any arbitrage.

8. Federal Arbitrage Rebate Requirement

The Village shall maintain or cause to be maintained an appropriate system of accounting to calculate bond investment arbitrage earnings in accordance with the Tax Reform Act of 1986, as amended or supplemented, and applicable United States Treasury regulations related thereto. Such amounts shall be computed annually and transferred from the Bond Construction Fund (i.e., interest earnings revenue account) to the Debt Service Fund escrow account, or other appropriate accounts, for eventual payment to the United States Treasury.

In order to avoid arbitrage earnings on bond proceeds, Village staff shall recommend issuance of debt based upon the cash flow needs of the capital improvement project in which contracts for construction or other goods and services can reasonably be expected to be awarded during the calendar year. Consideration shall be given to the feasibility of obtaining rights-of-way, engineering services, or other matters which may affect the completion of the project in a timely manner, before a recommendation to issue debt is made.

9. Policy Updates

The Finance Director shall review this policy on a biennial basis and update as needed.

E. Conduit Financing

Under federal and state statutes the Village Board has the authority to issue tax-exempt bonds for non-profit organizations organized under Internal Revenue Code 501 (c) (3), and economic development revenue bonds, also known as private activity bonds, under the Tax Reform Act of 1986. These tax-exempt bonds shall be collectively referred to as conduit financings. The Village has no liability or responsibility for repayment of the debt authorized under these statutes. Prior to issuing this type of financing, the Village Manager and Finance Director will update the Village Debt Management Policy to include specific guidelines related to the issuance and administration of conduit financing.

F. Policy Violations

The Village administration shall maintain governance practices that encourage ethical behavior. Any transactions related to the debt management practices that indicate the intentional non-compliance of the policy or a possibility of fraud shall be reported, either verbally or in writing, to the Village Manager and/or Chief of Police.