CITY OF GREEN BAY

DEBT SERVICE POLICY

CITY OF GREEN BAY DEBT POLICY	
Title: Debt Policy	**Policy Reference:** Chapter 10
Policy Source: Finance Department	**Legal Review Date:** February 26, 2013
Finance Committee Approval: March 27, 2013	**City Council Approval:**

10.1 Definition A debt policy is a tool which sets rules and provisions for the management of existing debt, issuance of additional debt and prompt and timely payment of all debt service. Such a policy improves the quality of decisions, provides justification for the structure of debt issuance, identifies policy goals, demonstrates a commitment to long-term financial planning and maintains the City's credit rating. A well managed debt program should allow for funding of capital projects within anticipated funding sources.

10.2 Purpose This policy will be a positive factor in the municipal market's assessment of the City of Green Bay's credit quality. The City's financial condition and credit ratings should always be the primary considerations when considering the issuance of debt. A debt policy sets forth parameters which will provide for consistency and continuity in the decision process. This leads to better long term planning and financial health which allows the City to attain as well as maintain the highest bond rating it deserves. The City recognizes that access to capital markets over the long term is dependent upon the City's unwavering commitment to full and timely repayment of debt.

10.3 Policy The City of Green Bay will confine long-term debt to capital improvements, long term fixed assets which outlive the debt issued for them or to refund existing debt. The capital improvements program includes projects to acquire, plan, design, construct, improve and equip all or any part of its facilities or systems, promote economic development or to secure quality of life issues. The City will work with its Finance Director, Treasurer and paying agent to make sure there is adequate funding for its debt service and make payments prompt and timely on its outstanding debt.

10.4 Types of Debt

10.4.1 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 general obligations known as "general obligation" bonds or notes.

General obligation bonds may be issued by a municipality to finance projects as allowed by Wisconsin State Statute that are 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 capital 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 of Green Bay shall 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) and the asset(s) outlive the length of the debt issued. 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 shall not be used to fund current operating costs.

10.4.2 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. 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.

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.

10.4.3 Revenue Bonds

Revenue bonds may be issued to finance public utilities, economic development projects or other projects allowed by Wisconsin State Statue. Repayment for this type of loan is made from the underlying revenues generated by the project. 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 of Wisconsin Statutes governs the issuance of revenue obligations.

The City of Green Bay should limit the use of revenue bonds to capital improvements for its water utility or other such enterprise utilities which may be created and fall under the direction of the Common Council, economic development projects or other projects as allowed by Wisconsin State Statue. Incidental to the issuance of the bonds, a portion of the proceeds can also be used to pay the associated issuance costs, project reserve funds and capitalized interest when appropriate.

10.4.4 Capital Leases

Capital lease financing shall be considered only if verifiable operating savings, when properly discounted, outweigh the lease financing costs. Written justification detailing the explanation of factors considered including cash flow analysis reviewed by the Finance Director will be submitted to the Finance Committee for consideration and approval before any lease is entered into.

10.4.5 Other Debt Instruments

The City of Green Bay 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 shall be followed. The City will attempt to limit the use of short-term debt to bond anticipation purposes. Proceeds from long-term debt shall not be used to pay for current operating expenses.

10.4.6 Conduit Debt

From time to time, the City may be asked to act as a conduit to the bond market by for-profit or not-for profit entities to promote economic development or secure quality of life issues. Prior to using the City as a conduit to the bond market, the entity shall provide substantive proof acceptable to the City that no budget appropriation shall be required to pay the debt. The City shall not allow the issuance of such debt on behalf of the entity, if doing so would prevent the City from issuing “bank qualified” debt for its own purposes without compensation from the entity to cover the additional debt service cost.

10.5 Debt Limitations.

10.5.1 Maximum amount of indebtedness

Section 67.03(1) of the Wisconsin Statutes provides that the amount of indebtedness of a municipality shall not exceed 5 percent of the equalized valuation of the taxable property in the municipality. Although State Statutes allows five percent (5%) of the equalized valuation, the City has set an internal debt goal, which seeks to remain below 50% of the maximum amount allowed by the State Statutes.

10.5.2 Asset life shall be longer than the debt issued for its purchase

The City shall consider the useful life of the project assets being financed and the long-range financial and credit objectives when determining the final maturity structure of the debt.

10.5.3 Spend down of borrowed proceeds

All debt taken out will be for shovel ready projects. Draw down of the funds will be in accordance with IRS rules for general obligation debt whereby ten percent (10%) of the proceeds will be spent within 6 months of the borrowing, 50% within 12 months of the borrowing, 75% within 18 months of the borrowing, and 100% within 24 months of the borrowing. Should this schedule not be met, the balance of the amount borrowed and not spent will be applied to debt service levy. Each general obligation debt will be closely monitored so that it adheres to IRS regulations in respect to arbitrage and spend down rules. Should State Trust Fund be utilized for the issuance of debt, all draw requests must be made within one year of receiving the approval of the State Trust Fund to borrow the funds.

10.5.4 The City of Green Bay shall utilize any debt obligations it has at its disposal to take advantage of the lowest cost of the debt or for another benefit for the City.

10.5.5 The City of Green Bay will follow a policy of full disclosure on every financial report and bond prospectus.

10.6 Credit Objectives.

10.6.1 The City of Green Bay will strive to maintain or improve its current rating with Moody's: General (Aa1) and RDA (Aa3). The City will strive to maintain good relations with the rating agency and keep them informed of significant developments that could affect the City's credit rating.

10.6.2 The following objectives will be used to maintain debt service requirements at an affordable level and enhance the credit quality of the City:

- The levy for debt service shall be no greater than twenty-five percent (25%) of the total levy, with an effort to maintain the levy at a proportionate, even level for tax rate stabilization.

- Flexibility to fund future expenditures necessary to provide essential City services and economic viability.

10.7 Method of sale

10.7.1 The City shall issue general obligation debt through a competitive bidding process with the exception of Council authorized negotiated sales. Bids will be awarded on a true interest cost (TIC) basis, providing other bidding requirements are satisfied. In the instance in which staff believes competitive bidding produced unsatisfactory bids, the Council may authorize the Finance Director and its financial advisors to negotiate the sale of the securities.

10.7.2 Negotiated sales of general obligation debt will be considered in circumstances when the complexity of the issue requires specialized expertise (such as advanced refunding or restructuring debt service), when time to complete a sale is critical or when a negotiated sale would result in substantial cost savings. Negotiated sales of debt will also be considered for revenue bonds, bond anticipation notes and leases when the complexity of the project, revenue source for debt service, or security for the debt makes it likely that a negotiated sale would result in a financial advantage to the City.

10.8 Refinancing / refunding of debt

10.8.1 Periodic reviews of outstanding debt will be undertaken to determine refinancing or refunding opportunities. Refinancing or refunding opportunities will be considered (within federal tax law constraints) if and when there is a net economic benefit for the refinancing or refunding.

10.8.2 In general, the City may capitalize on a refinancing or a refunding opportunity for economic savings when net present value savings of at least 2% of the refinanced / refunded debt can be achieved. Current refinancing or refunding that produce net present values savings of less than 2% savings may be considered when there is a compelling public policy or long-range financing policy objective.

10.9 Disclosure

10.7 .1 The City is committed to full and complete financial disclosure, and to cooperate fully with rating agencies, institutional investors, other units of government, and the general public to share clear, comprehensible, and accurate financial information.

10.7.2 The Finance Department will provide continuing disclosure in compliance with continuing disclosure certifications made at the time of each debt issuance, material events that may happen throughout the year and the required annual disclosures set forth by the Municipal Securities Rule Making Board (MSRB) and the Securities and Exchange Commission (SEC).

10.10 Tax Compliance

The City shall follow IRS guidelines found in section 148 of the IRS tax code to ensure its debt remains in tax compliance for the life of that property. A review will be done annually to ensure this compliance and the City will follow the proper debt record retention policy as laid out by the IRS.

10.11 Payment of debt service

10.11.1 The Finance Director will work with the City's Treasurer and paying agent to timely remit payment for its debt service when due. The City will require its paying agent to issue an invoice to the City no less than 30 days prior to the due date. Funds shall be transferred by the City electronically to the City's paying agent no later than one business day prior to the debt service due date. The paying agent will then hold the funds, on behalf of the City, in a trust account until such payment is electronically transferred to Depository Trust Company who then will disperse the funds to the City's bond holders.

10.12 Calculation and request for Build America Bond subsidy from the Internal Revenue Service

In 2009, the Federal Government allowed government entities to issue Build America Bonds. What this required was that governmental agencies could issue taxable debt with the caveat that the Federal Government would "rebate" 35% of the interest expense. The rebate would equate the cost of issuing a taxable bond to essentially be at or below the cost of a tax exempt bonds.

Depending on the type of debt that was issued (general obligation or State Trust fund bonds), a request for the 35% rebate will be required to be sent to the IRS at least 60 days prior to the debt service of the issue. It will be the responsibility of the Finance Director to complete the required forms and request this rebate in order to receive the payment timely.

10.13 Selection of Bond Counsel, Financial Advisors, and Debt Rating Agencies.

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