

CITY OF CHAMPAIGN DEBT POLICIES

I. PURPOSE AND GENERAL POLICIES

A. Purpose. This policy establishes guidelines for use of debt financing that will allow the City to minimize financing costs and retain or improve its Aa-1 bond rating from Moody's Investors Services (or an equivalent rating from a similar firm.)

B. Conditions under which the City may consider use of debt financing.

The City may consider the use of debt financing when all of the following conditions apply:

1. for one-time capital improvement projects and unusual equipment purchases,
2. when the project's useful life, or the projected service life of the equipment, will exceed the term of financing, and
3. when the City has identified revenues sufficient to service the debt, either from existing revenues or increased taxes or fees.

The City will not use debt for any recurring purpose such as current operating and infrastructure maintenance expenditures, nor will the City use short-term debt, unless under exigent circumstances.

C. The City will use the following criteria to evaluate pay-as-you-go financing versus debt financing in funding capital improvements:

1. Factors that favor pay-as-you-go financing.

- a) current revenues and/or adequate fund balances are available to finance the project
- b) project phasing could allow the City to finance the project over time without debt
- c) additional debt would adversely affect the City's credit rating
- d) market conditions are unstable or the project presents marketing difficulties

2. Factors that favor debt financing.

- a) revenues available for debt service are sufficient and reliable
- b) issuance of debt will not jeopardize the City's Aa-1 credit rating
- c) market conditions present favorable interest rates and good demand for municipal financing
- d) a project is mandated by state or federal requirements and current revenues and fund balances are insufficient to pay project costs
- e) a project is immediately required to meet or relieve infrastructure capacity needs, and current revenues and fund balances are not sufficient to finance the project
- f) the life of the project or asset financed is ten years or longer

II. DEBT ISSUANCE GUIDELINES

- A. Considerations in issuing General Obligation (G.O.) or Revenue Bonds. When the City has the option of using G.O. or revenue bonds, the City will consider the benefits of reduced debt expense and flexibility achievable through G.O. debt versus reserving the City's G.O. debt capacity by issuing revenue debt. The City may use General Obligation bonds in lieu of revenue bonds if debt expense can be significantly reduced (as compared to financing with revenue debt) and if special or enterprise fund revenue is sufficient and reliable to fund debt service costs. In such cases, the City Council will adopt ordinances abating the debt tax levies and direct staff to pay debt service costs with alternative revenues.
- B. Credit Enhancements. The City will seek credit enhancements such as letters of credit or insurance when necessary for marketing purposes or to make the financing more cost-effective.
- C. Debt Structure Guidelines.
1. In general, the City will maintain a debt structure under which 50% of the outstanding principal will be repaid within ten years.
 2. The term of financing (final bond maturity) will not exceed the expected useful life of the project or equipment financed with the debt.
 3. If the City plans to pay debt service expenses from a specific revenue source, the City will use conservative assumptions in its revenue projections.
- D. Professional Services. To provide assistance in debt issuance, the City will select a financial advisor and/or investment banker and bond counsel on a competitive basis; these advisors will be retained for several years to provide continuity and allow them to develop an understanding of the City's needs.
- E. Competitive versus negotiated debt issuance. The City will generally conduct financing on a competitive basis; however, negotiated financing may be used where market volatility or the use of an unusual or complex financing or security structure causes a concern with regard to marketability.
- F. Inter-Fund Loans. The City may use inter-fund loans (in lieu of borrowing from private parties) to minimize the expense and administrative effort associated with external borrowing. Inter-fund loans are typically made for relatively short periods of time (under five years) and relatively low amounts (under three million dollars). Inter-fund loans will be considered to finance high priority needs on a case-by-case basis, only when other planned expenditures in the fund making the loan would not be affected. Inter-fund loans are generally made by the City's Treasury Fund (the pooled cash account) and shall be limited to 10% of the total cash balances in City Operating funds plus 20% of the total cash balances for City Community Improvement and Capital and Trust funds. Inter-fund loans from the Treasury Fund shall be repaid with interest at a rate similar to the average rate of interest earned by the Treasury Fund.

G. Maintenance of specific credit ratings.

1. The City will seek to maintain or improve its current Aa-1 bond rating and will specifically discuss with the City Council any proposal which might cause that rating to be lowered.
2. An analysis will be prepared by City staff for each proposed financing; such analysis will assess the impact of debt issuance on current and future operating and capital budgets and address the reliability of revenues to support debt service payments.

III. DEBT CAPACITY GUIDELINES FOR GENERAL OBLIGATION DEBT

A. Direct Debt. To maintain its sound fiscal condition and Aa1 debt rating, the City will limit the amount of debt it will issue and its annual debt service expenses in accordance with the guidelines stated in Section B below. The guidelines are ranges for measures of debt capacity. Debt within the lower limits of the measures would be considered a low debt level given Champaign's fiscal, demographic and economic characteristics, while debt in the higher limits of the measures would be considered a moderate debt level. Generally, the City will maintain its debt below the 75% percentile of the ranges (stated below). However, the City may issue debt at the higher levels of the ranges under certain circumstances such as the following:

1. The outstanding debt is general obligation debt, but the City is not using property taxes to pay debt service costs.
2. The City's debt is at the lower end of the limits for two of the measures but above the 75% level for the third.
3. The City anticipates that while the amount of debt and/or debt service expenditures might be above the 75% level for a few years, debt will fall below that level after that.
4. Current and anticipated overlapping debt levels are relatively low.

B. Guidelines for Direct Debt.

1. Outstanding Debt as a Percent of the Market Value of Taxable Property
 - Guideline: 1 to 2.5%
 - 75% of Guideline: 2.1%
2. Debt Service Expenditures per Capita
 - Guideline: \$500 to \$1000, increasing at the rate of inflation of the Consumer Price Index for the Midwest Size B/C Classification since the end of calendar 2000
 - 75% of Guideline: \$875
3. Debt Service Expenditures as a Percent of General Fund Expenditures (including net transfers) and Debt Service Payments
 - Guideline: 7 to 15%
 - 75% of Guideline : 13%

- C. Overlapping Debt. The City will monitor levels of overlapping debt and communicate debt plans with public entities that may issue overlapping debt. The City will take into account overlapping debt in considering both the amount of debt that the City will issue, and the timing of City bond issues.

IV. DEBT ADMINISTRATION

- A. Financial Disclosure. The City will follow a policy of full disclosure on every financial report and bond prospectus (Official Statement), voluntarily following disclosure guidelines provided by the Government Finance Officers Association unless the cost of compliance with the higher standard is unreasonable.
- B. Monitoring Outstanding Debt.
 - 1. The City will monitor all forms of debt annually and include an analysis in the City's Financial Plan; concerns and recommended remedies will be reported to the City Council as necessary.
 - 2. The City will monitor bond covenants and federal regulations concerning debt, and adhere to those covenants and regulations at all times.
 - 3. Investment of Bond Proceeds. The City will invest bond proceeds in accordance with the City's adopted investment policy and federal arbitrage regulations.

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