



Governing Body Adoption: 08/15/2023

CITY OF VALLEY CENTER DEBT POLICY

SECTION 1. POLICY OBJECTIVES

- 1.1.** The objectives of this policy are to plan and control capital expenditures, financing requirements, and guidelines for the issuance of various debt instruments. To hold borrowing costs at a minimum and maintain ratios within this policy's standards and in accordance with K.S.A. Chapter 10. The intent is to maintain or improve favorable ratings and competitive interest costs on all types of borrowing instruments, thereby providing savings to taxpayers.

SECTION 2. PAY-AS-YOU-GO

- 2.1.** Pay-as-you-go (PAYGO) funding will use current-year revenues or reserves. The City shall strive to finance at least twenty percent (20%) of the City's capital improvement budget with pay-as-you-go financing from current resources. Neither pay-as-you-go nor bond financing is superior to the other, and traditionally a combination of approaches is the most prudent course.
- 2.2. Pay-As-You-Go Funding Use Considerations**
 - Current revenues and fund balances are available.
 - Phasing-in of projects is feasible.
 - Additional debt financing would adversely affect the City's credit rating.
 - Market conditions are unstable or suggest difficulties in marketing.

2.3. Long-Term Debt Financing Use Considerations

- Revenues available for bond issues are considered sufficient and reliable so that long-term financing can be marketed with an appropriate credit rating that can be maintained.
- Market conditions present favorable interest rates and demand for City long-term financing.
- Current revenues or fund balances are sufficient to pay project costs.
- A project is immediately required to meet or relieve capacity needs.
- A project is mandated by the state or federal government.
- The life of the project or asset financing is five years or longer.

SECTION 3. GENERAL DEBT POLICY

- 3.1.** City debt will be structured to achieve the lowest possible net interest cost to the City given market conditions, the urgency of the capital project, and the nature and type of any security provided. To every extent possible, the City will design the repayment of its overall debt issue so as to rapidly recapture its credit capacity for future use.
- 3.2.** The City shall strive for the following benchmarks:
 - 20% maximum Statutory Direct Debt as a percentage of assessed valuation. In no case shall this ratio exceed the 30% maximum in accordance with K.S.A. 10-308.

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- Statutory direct debt as a percentage of assessed valuation is calculated with each debt issue and included in the Official Statement of each offering.
- Revenue bonds and bonds issued for the following projects shall be excluded from this calculation pursuant to K.S.A. 10-309.
 - Storm or sanitary sewer projects.
 - Municipal utilities.
 - Improvements to the intersection of streets and alleys.
 - Projects within the Valley Center Capital Improvement Plan.
- Rapid amortization of total debt (all general obligation and revenue bonds) with the objective of at least 60% over ten (10) years.

3.3. The City shall review and consider the effect debt could have on the following:

- Adherence to the Capital Improvement Plan.
- Potential for increase in assessed valuation.
- Potential for growth in sales tax revenue.
- Mill levy required to service the Bond & Interest Fund annually.
- Other factors as the City determines appropriate.

3.4. The City will levy the needed millage for the Bond and Interest Fund to ensure the current principal and interest payments required for the current fiscal year are covered, less any long-term debt supported by utility funds or special assessments.

SECTION 4. TEMPORARY NOTES

4.1. Petitions submitted for internal improvements, including engineer's estimates for project design, construction, staking, administration, and inspection, shall be used on a project-by-project basis to determine the amount required for each note.

4.2. Project timing shall be coordinated whenever possible so that temporary notes can be combined to avoid additional issuance costs, such as financial advisor, bond counsel, rating fees, publications, and closing costs. The maximum maturity of any one note shall be four years from the date of issue.

4.3. Call provisions shall be determined on a project-by-project basis. Various outstanding notes shall be combined and sold in a series as determined by project and maturity to reduce costs associated with public bond sales of several modest issues.

SECTION 5. GENERAL OBLIGATION BONDS

5.1. Issuance shall be, at most, twice per calendar year unless the prevailing interest rates dictate additional issuances.

5.2. Rapid debt maturity is desired. Generally, maturities shall be scheduled to level annual debt service requirements. The maximum maturity shall not exceed the anticipated useful life of the capital item and, in no case, shall exceed 20 years.

5.3. Debt shall be used only for equipment, land acquisition, or improvements that cannot be financed with current revenues; however, this may be modified to spread costs over a lengthy period of time based on historical growth or assessed valuation so that future citizens become responsible for portions of the cost where it is estimated that the cost of long-term borrowing is less than can be obtained through invested earnings.

5.4. Payment of long-term debt shall be budgeted in the Bond and Interest fund unless directed by resolution to establish debt service accounts in utility or special revenue funds.

SECTION 6. REVENUE BONDS

6.1. For the City to issue new revenue bonds, projected annual revenues as defined by the ordinance authorizing such issuance shall be a minimum of 125% of the issue's average yearly revenue debt service. Annual adjustments to the City's rate structures shall be considered to maintain the 125% coverage factor if necessary.

SECTION 7. SPECIAL ASSESSMENT BONDS

7.1. The City shall maintain a watchful attitude over the issuance of special assessment bonds for benefit district improvements. While the City's share of any benefit district project may fluctuate, under Kansas law, the City shall not pay more than 95% of any proposed costs related to a benefit district.

SECTION 8. LEASE AGREEMENTS AND LEASE/PURCHASE AGREEMENTS

8.1 Lease/purchase agreements provide a flexible financial alternative for acquiring assets. Certain lease/purchase agreements are subject to voter approval. A lease/purchase agreement shall be negotiated only after a Request for Proposals is solicited to obtain the best available interest rate.

8.2 Generally, lease agreements shall be for a minimum of one (1) year and shall not exceed five (5) years. A lease agreement is not a binding long-term commitment to pay on the part of the City and therefore is not considered indebtedness; it is classed as debt by credit rating agencies.

SECTION 9. CASH ON DELIVERY (COD)

9.1 Cash on delivery provides payment in full of a public improvement upon demand of the City as provided for in the authorizing project resolution. Cash on delivery may be preferred when the City has been requested (by petition pursuant to the Special Assessment procedure) to make a public improvement for which traditional general obligation bonds would be issued and special assessments certified, thereby adding to the City's overall debt burden. The Council will consider requests for COD treatment if the petitioners can provide adequate credit enhancement that would ensure payment in full of total project costs as determined by the finance director. Credit enhancements could include letters of credit, cash held in escrow in the City's name, or any other instrument approved by the city attorney.

SECTION 10. ADMINISTRATION

10.1 It shall be the responsibility of the City Finance Director to maintain all necessary files associated with the issuance of city debt.

10.2 The Finance Director shall submit a fiscal impact statement of projects in the Capital Improvement Plan (CIP) that are to be funded with long-term debt.

- The fiscal impact statement shall be presented to City Council for consideration during the annual budget process.
- The fiscal impact statement shall contain, at a minimum, an estimate of the debt service levy to be required, a calculation showing the impact of this additional levy on the existing debt service levy, and the effect on the debt ratios identified in Section 3 above.

- The fiscal impact statement will summarize the offsetting revenues of debt, such as special assessments, sales taxes, and user fees and projected user fee rate increases in the case of revenue bond financing.
- The fiscal impact statement shall provide information on any projected user fee rate increases in the case of revenue bond financing.

SECTION 11. REFUNDING OF DEBT

11.1 Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities. In accordance with K.S.A. chapter 10 article 4 and within federal tax law constraints, refunding will be considered if there is a net economic benefit, or the refunding is necessary to modernize covenants essential to operations and management.

11.2 Staff and the City's financial advisor shall monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debt. If the opportunity is beneficial the general rule(s) will be as follows:

- The present value savings of a particular refunding shall, in most cases, exceed 3% of the refunding maturities.
- Refunding issues that produce a net present value savings of less than 3% shall be considered on a case-by-case basis.
- Refunding issues with negative savings shall only be considered if a compelling public policy objective exists.

SECTION 12. CONDUIT FINANCING

12.1 The City may sponsor conduit financings in the form of Industrial Revenue Bonds for those activities (i.e., economic development, housing, health facilities, etc.) that have a general public purpose and are consistent with the City's overall service and policy objectives as determined by the City Council.

12.2 All conduit financings must protect the City completely from any credit risk or exposure and must first be approved by the City Administrator before being submitted to the City Council for consideration.

SECTION 13. ARBITRAGE LIABILITY

13.1 The City shall minimize the cost of arbitrage rebate and yield restriction while strictly complying with the law. Federal arbitrage legislation is intended to discourage entities from issuing tax-exempt obligations unnecessarily.

- In compliance with the spirit of the legislation, the City shall not issue obligations except for identifiable projects with very good prospects of timely initiation.
- Temporary notes and subsequent general obligation bonds shall be issued timely in connection with project schedules so that debt proceeds are spent quickly.

13.2 Because of the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, bond counsel and other qualified experts' advice will be sought whenever questions about arbitrage rebate regulations arise.

GLOSSARY

As used in this policy, and amendments thereto, the following words and phrases shall have the following meanings unless a different meaning clearly appears from the context:

ARBITRAGE — The difference between the interest expense paid by the bond debt issuer and the earnings from the invested proceeds.

ASSESSED VALUATION — The value assigned to property by a municipality for the purposes of taxation, particularly when it comes to municipal property taxes. These valuations take into account a number of different factors, including overall quality, market conditions, and nearby property values.

BONDS — Debt issued for a period of more than one year. When an investor buys bonds, he or she is lending money. The seller of the bond agrees to repay the principal amount of the loan at a specified time. Interest-bearing bonds pay interest periodically.

CAPITAL EXPENDITURES — Amount used during a particular period to acquire or improve long-term assets such as property, infrastructure, or equipment.

CAPITAL IMPROVEMENT PLAN (CIP) — A plan for capital expenditures that typically extends five to ten years beyond the capital budget, used for sustaining and improving the community's infrastructures. It coordinates strategic planning, financial capacity, and physical development.

CONDUIT FINANCING — Financing in which the issuer issues the bonds to finance a project to be used primarily by a third party.

CREDIT RATING or RATING — An evaluation of the municipalities ability to repay obligations or it's likelihood of not defaulting.

LONG-TERM DEBT — A legal obligation that typically does not mature for more than a decade

MARKET — The market for trading equities.

OFFICIAL STATEMENT — The disclosure document prepared by a bond issuer that gives detailed financial information about the issuer and the bond offering.

PAYGO (PAY AS YOU GO) — Is the practice in the United States of financing expenditures with funds that are currently available rather than borrowed.

RESERVES — Monies the City keeps on hand to meet emergency funding needs.

REVENUE BONDS — Bonds issued by any municipality to be paid from the revenue derived from the operation of a publicly owned utility, instrumentality, or facility of a revenue-producing character, or which are not general obligations of the issuing municipality.

STATUTORY DIRECT DEBT — also referred to as Statutory Debt Limit is the maximum amount of debt that a municipality can either issue or have outstanding at any given time. These limits are often put in place via statutes or constitutions on a state or municipal level to avoid taking on excessive risks of any kind.