



Village of Downers Grove

Official Village Policy Approved by Village Council

Description:	Debt Management Policy	
Res. or Ord. #:	_____	Effective Date: _____
Category:	Financial Services	
	<input checked="" type="checkbox"/> New Council Policy	
	Amends Previous Policy Dated: _____	
	Description of Previous Policy (if different from above): _____	

RESOLUTION NO. _____

A RESOLUTION ESTABLISHING THE POLICY OF THE VILLAGE COUNCIL WITH RESPECT TO DEBT MANAGEMENT

I. PURPOSE AND GOALS

The Village of Downers Grove developed this Debt Management Policy to help ensure the Village's credit worthiness and to provide a functional tool for debt management and capital planning.

The Village of Downers Grove faces continuing capital infrastructure requirements to meet the increasing needs of its citizens. The Village limits long-term debt to only those capital improvements that cannot be financed from current revenues. The Village of Downers Grove has not used long-term debt to fund operating programs.

The costs of the capital requirements will be met through the issuance of various types of debt instruments. Consequently, the Village needs to anticipate increases in debt levels based upon historical data. With these increases, the effects of decisions regarding the type of issue, method of sale, and payment structure become ever more critical to the Village's financial well being. To help ensure the Village's credit worthiness, an established program of managing the Village's debt becomes essential.

In addition, the Village Council has the authority to provide conduit financings for non-profit organizations through the issuance of 501 (c) (3) bonds, and private activity bonds to promote economic development within the community. As a home rule community, the Village is granted \$80 per capita on a calendar year basis for the issuance of private activity bonds to promote new facilities and expansion and refurbishing of existing facilities that qualify under the Tax Reform Act of 1986 and 30 ILCS 345.

To this end, the Village Council recognizes this "Debt Management Policy" to be financially prudent and in the Village's best economic interest.

The purpose of this policy is to provide a functional tool for debt management and capital planning, and facilitate the issuance of conduit financings, as well as, enhance the Village's reputation for managing its debt in a conservative and prudent manner.

**GOALS RELATED TO THE ISSUANCE OF GENERAL OBLIGATION
AND REVENUE BOND DEBT**

In following this policy, the Village shall pursue the following goals when issuing debt:

- Maintain at least an AA credit rating for each general obligation debt issue.
- Take all practical precautions to avoid any financial decision which will negatively impact current credit ratings on existing or future debt issues.
- Consider market timing.
- Determine the amortization (maturity) schedule which will best fit with the overall debt structure of the Village's general obligation debt and related tax levy at the time the new debt is issued. The Village may choose to delay principal payments or capitalized interest during project construction. For issuance of revenue bonds, the amortization schedule which will best fit with the overall debt structure of the enterprise fund and its related rate structure will be considered. Consideration will be given to coordinating the length of the issue with the lives of assets, whenever practicable, 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.
- Consider the impact of such new debt on overlapping debt and the financing plans of local governments which overlap, or underlie the Village.
- Assess financial alternatives to include new and innovative financing approaches, including, whenever feasible, categorical grants, revolving loans or other state/federal aid.
- Minimize debt interest costs.
- Level or declining debt service shall be employed unless operational matters dictate otherwise, or except to achieve overall level debt service with existing bonds. The Village shall be mindful of the potential benefits of bank qualification and will strive to limit its annual issuance of debt to \$10 million or less when such estimated benefits are greater than the benefits of exceeding the bank qualification limit. Should subsequent changes in the law raise this limit, then the Village policy will be adjusted accordingly.
- The cost of issuance of private activity bonds is usually higher than for governmental purpose bonds. Consequently, private activity bonds will be issued only when they will economically benefit the Village.
- The cost of taxable debt is higher than for tax-exempt debt. However, the issuance of taxable debt is mandated in some circumstances and may allow valuable flexibility in subsequent contracts with users or managers of the improvement constructed with the bond proceeds. Therefore, the Village will usually issue obligations tax exempt, but may occasionally issue taxable obligations.

II. DEBT ISSUANCE IN GENERAL

A. 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. The Village Charter authorizes the Village Council to incur debt by issuing bonds for any lawful municipal purpose as authorized by the State Constitution or its Home Rule Powers.

B. Types of Debt Issued

1. Short-Term. (three years or less) The Village may issue short-term debt to finance the purchase of non-capital equipment having a life exceeding one year or provide increased flexibility in financing programs. The Village will have no more than 10% of its outstanding general obligation debt in short term debt.
2. Long-Term. (more than three years) The Village may issue long-term debt which may include, but not limited to, general obligation bonds, certificates of participation, 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.

C. Capital Improvement Program

The Capital Improvement Program (CIP), prepared by the Village Manager, and approved by the Village Council, shall determine the Village's capital needs. The program shall be a five-year plan for the acquisition, development and/or improvement of the Village's infrastructure. Projects included in the CIP shall be prioritized; and the means for financing each shall be identified. The first year of the program shall be the Capital Budget. If the current resources are insufficient to meet the needs identified in the Capital Budget, the Village Council may consider incurring debt to fund the shortfall. The Village Council, upon advice from the Village's financial advisor, may also consider funding multiple years of the Capital Improvement Program by incurring debt. The CIP should be revised and supplemented each year in keeping with the Village's policies on debt management.

D. Structure of Debt Issues

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. In keeping with the stated goals of this debt management policy, the Village shall structure each general obligation issue (except refunding issues) to comply with the rapidity of debt repayment provisions in Section III. G. 5. following.

E. Sale of Securities

All debt issues should be sold through a competitive bidding process based upon the lowest offered True Interest Cost (TIC), unless Council deems a negotiated sale the most advantageous to the Village.

F. 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 Council.

G. Inclusion of Local Institutions

In the interest of promoting Downers Grove, whenever practical and in the best interests of the Village Of Downers Grove, local financial institutions are to be offered the opportunity to bid on debt instruments.

III. LEGAL CONSTRAINTS AND OTHER LIMITATIONS ON THE ISSUANCE OF DEBT

The Village Council may utilize the guidelines established by this policy, or may choose, in its discretion, to consider other relevant factors in incurring debt. The validity of any debt incurred in accordance with applicable law shall not be invalidated, impaired or otherwise affected by non-compliance with any part of the procedure set forth pursuant to this policy.

A. State Law

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

B. Authority for Debt

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 Council.

C. Debt Limitation

Because the Village of Downers Grove is a Home Rule community, the debt limitations of the bond laws are not applicable.

D. Methods of Sale

All bonds shall be sold at a public sale via sealed proposal, except that bonds may be sold at a private sale in accordance with 30 ILCS 350/10. The Village may issue short-term notes by negotiated sale if the bond ordinance or subsequent resolution so provides.

1. Bonds All bonds will mature within the period or average period of usefulness of the assets financed; and the bonds will mature in installments, the first of which is payable not more than five years from the dated date of the bonds. Term bonds may be allowable if recommended by the Village's financial advisor, in lieu of a fixed maturity schedule, and approved by the Village Council.
2. Financial Advisor To ensure independence, the Financial Advisor will not bid on nor underwrite any Village debt issues on which it is advising.

F. 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:

1. Ratio of Gross Bonded Debt to Estimated Full Market Value
The formula for this computation is Gross Bonded Debt, which is the total outstanding debt, divided by the current Estimated Full Value as determined by the Township Assessors.
2. Ratio of Gross Bonded & Share of Overlapping Debt to Estimated Full Market Value
The formula for this computation is Gross Bonded Debt and Overlapping Debt (Village resident's share of the overlapping debt) divided by the current Estimated Full Value as determined by the Township Assessors.
3. Gross Bonded Debt & Overlapping Debt Per Capita
The formula for this computation is Gross Bonded Debt and Overlapping Debt (Village resident's share of the overlapping debt) divided by the current population as determined by the most recent census information available.
4. Ratio of Annual Debt Service to General Government Expenditures

The formula for this computation is annual debt service expenditures for governmental debt divided by General Government (i.e., General, Special, and Debt Service Funds) expenditures (excluding interfund transfers).

5. Rapidity of Debt Service Repayment

The Village's general obligation bond issues should be so structured whereby 100% of the debt will be retired within twenty years. It is also desirable to structure the Village's general obligation bond issues so that at least 50% of the principal will be retired within 10 years.

6. Current General Fund Cash Reserve

The Village should maintain a General Fund cash and investments balance equal to a no less than two months of total annual expenditures, exclusive of pensions (for which there is a separate levy), capital and controlled asset expenditures (assumed to be expenditures that would be discretionary should the economy falter). Such calculation, including a projection to April 30th (of the current fiscal year), shall be made on an annual basis by the Director of Finance during the budget process.

IV. DEBT ADMINISTRATION

A. **Financial Disclosures**

The Village shall prepare appropriate disclosures as required by the Securities and Exchange Commission, 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.

B. **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 Director of Finance/Treasurer who shall determine the financial feasibility, and the impact on existing debt of such proposal, and shall make recommendations accordingly to the Village Manager.

C. **Establishing Financing Priorities**

The Director of Finance/Treasurer 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 Director of Finance/Treasurer along with the Village's financial advisor shall meet, as appropriate, with the Village Manager and the Village Council's Finance & Administrative Committee regarding the status of the current year's program and to make specific recommendations.

D. **Rating Agency Relations**

The Village shall endeavor to maintain effective relations with the rating agencies. The Village Manager, Director of Finance/Treasurer, and the Village's financial advisors should 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.

E. **Investment Community Relations**

The Village should endeavor to maintain a positive relationship with the investment community. The Director of Finance/Treasurer 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.

F. **Refunding Policy**

The Village should 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.

G. 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 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 should enable the Village to respond to changes in markets or changes in payment or construction schedules so as to (i) minimize risk, (ii) ensure liquidity, and (iii) optimize returns.

V. CONDUIT FINANCINGS

Under federal and state statutes the Village Council 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 should be collectively referred to as conduit financings. The Village has no liability or responsibility for repayment of the debt authorized under these statutes.

The following policy and procedures shall be followed prior to the issuance of any such debt:

A. The applicant shall contact the Village Manager or the Director of Finance and submit a formal application for the issuance of a conduit financing. An application fee of \$1,000 must accompany the formal application.

B. For private activity (economic development revenue bonds), the application shall include a written proposal which should include, but not be limited to, the following information, where applicable:

1. The Project

a. A description of the project including whether original issuance, refinancing, recollateralization or other action sought;

b. A statement indicating the amount of funding required for the project and a description of the purpose for which such funding will be used;

c. A description of any proposed financing arrangement for the project (e.g., loan agreement, or Village to own the project and lease to applicant);

d. A statement of the public purpose to be served by the issuance of economic development revenue bonds for the project;

e. An anticipated construction schedule and schedule for completing the financing;

f. The name and address of the proposed purchaser of the economic development revenue bonds proposed to be issued, if known;

g. A complete description, with such supporting exhibits as may be appropriate, of the physical aspects of the project.

h. Projected number of vehicles entering the facility area per day.

i. Ability of the streets to carry additional load

- j. Drainage/storm sewer requirements
- k. Utility requirements
- l. Ability of the schools to accommodate possible enrollment increases
- m. Financial Stability of the Applicant
- n. Description of principal business of applicant
- o. Number of employees anticipated at the new facility
- p. Number of new jobs to be created
- q. Number of management level employees
- r. Types of skills required by the facility's employees
- s. Yearly payroll/average employee salary
- t. Projected appraised/assessed value of the facility's real personal property in Downers Grove
- u. Number of years the prospective tenant has been in business
- v. Number of plant relocations since 1960, if applicable
- w. Civic Awareness

C. For the issuance of 501 (c) (3) bonds the proposal shall include all of the information listed in section B. above as well as the following, as applicable:

- 1. A statement of the public purpose to be served by the issuance of 501 (c) (3) revenue bonds for the project;

D. The information submitted by the applicant should be reviewed by the Village's Director of Finance, and the Village's financial and legal advisors and a summary of such information, together with an evaluation thereof and the recommendation of the staff should be presented to the Village Council as promptly as practicable thereafter. In addition, the Village may retain the services of qualified legal counsel to act as special counsel or the Village's financial advisor to do a study of the economic viability of the project. The applicant shall be responsible for all fees of the financial and legal advisors and shall deposit with the Village a sum sufficient to cover such costs and fees as determined from time to time by the Finance Director.

E. The Village Council shall review the report presented to them by the Village staff as promptly as practicable after receipt thereof and shall take one of the following actions:

- (1) Notify the applicant in writing that its proposal has been rejected and refund to the applicant any uncommitted balance of the deposit, if any.
- (2) Adopt a resolution of intent to proceed with the project and refund to the applicant any uncommitted balance of the deposit, if any.

F. If a resolution of intent is adopted by the Village Council, the financing, refinancing, or recollateralization may proceed pursuant to the provisions of this policy. All costs of issuance associated with such financing, including any expenses attributable to the Village, shall be borne by the applicant.

VI. GLOSSARY OF TERMS

Ad Valorem Tax - A direct tax based "according to value" of property.

Advanced Refunding Bonds - Bonds issued to refund an outstanding bond issue prior to the date on which the outstanding bonds become due or callable. Proceeds of the advanced refunding bonds are deposited in escrow with a fiduciary, invested in United States Treasury Bonds or other authorized securities, and used to redeem the underlying bonds at maturity or call date.

Amortization - the process of paying the principal amount of an issue of bonds by periodic payments either directly to bondholders or to a sinking fund for the benefit of bondholders.

Arbitrage - Usually refers to the difference between the interest paid on the tax-exempt securities and the interest earned by investing the proceeds in higher yielding taxable securities. Internal Revenue Service regulations govern arbitrage (reference I.R.S. Reg. 1.103-13 through 1.103-15).

Arbitrage Bonds - Bonds which are deemed by the I.R.S. to violate federal arbitrage regulations. The interest on such bonds becomes taxable and the bondholders must include this interest as part of gross income for federal income tax purposes (I.R.S. Reg. 1.103-13 through 1.103-15).

Assessed Value - An annual determination of the just or fair market value of property for purposes of ad valorem taxation.

Basis Point - 1/100 of one percent.

Bond - Written evidence of the issuer's obligation to repay a specified principal amount on a date certain, together with interest at a stated rate, or according to a formula for determining that rate.

Bond Anticipation Notes (BANS) - Short-term interest bearing notes issued by a government in anticipation of bonds to be issued at a later date. The notes are retired from proceeds of the bond issue to which they are related.

Bond Counsel - An attorney retained by the Village to render a legal opinion whether the Village is authorized to issue the proposed bonds, has met all legal requirements necessary for issuance, and whether interest on the bonds is, or is not, exempt from federal and state income taxation.

Bonded Debt - The portion of an issuers total indebtedness represented by outstanding bonds.

Callable Bond - A bond which permits or requires the issuer to redeem the obligation before the stated maturity date at a specified price, the call price, usually at or above par value.

Capital Appreciation Bonds (CAB) - A long-term security on which the investment return is reinvested at a stated compound rate until maturity. The investor receives a single payment at maturity representing both the principal and investment return.

Certificates of Participation - Documents, in fully registered form, that act like bonds. However, security for the certificates is the government's intent to make annual appropriations during the term of a lease agreement. No pledge of full faith and credit of the government is made. Consequently, the obligation of the government to make basic rental payments does not constitute an indebtedness of the government.

Commercial Paper - Very short-term, unsecured promissory notes issued in either registered or bearer form, and usually backed by a line of credit with a bank.

Coupon Rate - The annual rate of interest payable on a coupon bond (a bearer bond or bond registered as to principal only, carrying coupons evidencing future interest payments), expressed as a percentage of the principal amount.

Debt Limit - The maximum amount of debt which an issuer is permitted to incur under constitutional, statutory or charter provision.

Debt Service - The amount of money necessary to pay interest on an outstanding debt, the serial maturities of principal for serial bonds, and the required contributions to an amortization or sinking fund for term bonds.

Demand Notes (Variable Rate) - A short-term security which is subject to a frequently available put option feature under which the holder may put the security back to the issuer after giving specified notice. Many of these securities are floating or variable rate, with the put option exercisable on dates on which the floating rate changes.

Direct Debt or Gross Bonded Debt - The sum of the total bonded debt and any unfunded debt of the issuer.

Double Barreled Bonds (Combination Bonds) - A bond which is payable from the revenues of a governmental enterprise and are also backed by the full faith and credit of the governmental unit.

Enterprise Funds - Funds that are financed and operated in a manner similar to private business in that goods and services provided are financed primarily through user charges.

General Obligation Bond - A bond for whose payment the full faith and credit of the issuer has been pledged. More commonly, but not necessarily, general obligation bonds are payable from ad valorem property taxes and other general revenues.

Lease Purchase Agreement (Capital Lease) - A contractual agreement whereby the government borrows funds from a financial institution or a vendor to pay for capital acquisition. The title to the asset(s) normally belongs to the government with the lessor acquiring security interest or appropriate lien therein.

Letter of Credit - A commitment, usually made by a commercial bank, to honor demands for payment of a debt upon compliance with conditions and/or the occurrence of certain events specified under the terms of the commitment.

Level Debt Service - An arrangement of serial maturities in which the amount of principal maturing increases at approximately the same rate as the amount of interest declines.

Long-Term Debt - Long-term debt is defined, for purposes of this policy, as any debt incurred whose final maturity is more than three years.

Maturity - The date upon which the principal of a municipal bond becomes due and payable to bondholders.

Mini-bonds - A small denomination bond directly marketed to the public.

Net Direct Debt or Net Bonded Debt - Direct debt less sinking fund accumulations and all self supporting debt.

Net Interest Cost (NIC) - The traditional method of calculating bids for new issues of municipal securities. The total dollar amount of interest over the life of the bonds is adjusted by the amount of premium or discount bid, and then reduced to an average annual rate. The other method is known as the true interest cost (see "true interest cost").

Net Overall Debt - Net direct debt plus the issuer's applicable share of the net direct debt of all overlapping jurisdictions.

Offering Circular - Usually a preliminary and final document prepared to describe or disclose to investors and dealers information about an issue of securities expected to be offered in the primary market. As a part of the offering circular, an official statement shall be prepared by the Village describing the debt and other pertinent financial and demographic data used to market the bonds to potential buyers.

Other Contractual Debt - Purchase contracts and other contractual debt other than bonds and notes. Other contractual debt does not affect annual debt limitation and is not a part of indebtedness within the meaning of any constitution or statutory debt limitation or restriction.

Overlapping Debt - The issuer's proportionate share of the debt of other local governmental units which either overlap or underlie it.

Par Value or Face Amount - In the case of bonds, the amount of principal which must be paid at maturity.

Parity Bonds - Two or more issues of bonds which have the same priority of claim or lien against pledged revenues or the issuer's full faith and credit pledge.

Principal - The face amount or par value of a bond or issue of bonds payable on stated dates of maturity.

Private Activity Bonds - One of two categories of bonds established under the Tax Reform Act of 1986, both of whom are subject to certain tests and State volume caps to preserve tax exemption.

Ratings - Evaluations of the credit quality of notes and bonds, usually made by independent rating services, which generally measure the probability of the timely repayment of principal and interest on municipal bonds.

Refunding Bonds - Bonds issued to retire bonds already outstanding.

Registered Bond - A bond listed with the registrar as to ownership, which cannot be sold or exchanged without a change of registration.

Reserve Fund - A fund which may be used to pay debt service if the sources of the pledged revenues do not generate sufficient funds to satisfy the debt service requirements.

Self Supporting or Self Liquidating Debt - Debt that is to be repaid from proceeds derived exclusively from the enterprise activity for which the debt was issued.

Short-Term Debt - Short-term debt is defined for purposes of this policy as any debt incurred whose final maturity is three years or less.

Sinking Fund - A sinking fund is money put aside for the repayment of future debt service. Some instruments require the establishment and funding of such a vehicle.

Spread - The income earned by the underwriting syndicate as a result of differences in the price paid to the issuer for a new issue of municipal bonds, and the prices at which the bonds are sold to the investing public, usually expressed in points or fractions thereof.

Tax-Exempt Bonds - For municipal bonds issued by the Village tax-exempt means interest on the bonds are not included in gross income for federal income tax purposes; the bonds are not items of tax preference for purposes of the federal, alternative minimum income tax imposed on individuals and corporations; and the bonds are exempt from taxation by the State of Illinois.

Tax Increment Bonds - Bonds secured by the incremental property tax revenues generated from a redevelopment project area.

Term Bonds - Bonds coming due in a single maturity.

Total Overall Debt - Net direct debt plus the issuer's applicable share of the direct debt of all overlapping jurisdictions.

True Interest Cost (TIC) - Also known as Canadian Interest Cost. A rate which, when used to discount each amount of debt service payable in a bond issue, will produce a present value precisely equal to the amount of money received by the issuer in exchange for the bonds. The TIC method considers the time value of money while the net interest cost (NIC) method does not.

Yield to Maturity - The rate of return to the investor earned from payments of principal and interest, with interest compounded semiannually and assuming that interest paid is reinvested at the same rate.

Zero Coupon Bond - A bond which pays no interest, but is issued at a deep discount from par, appreciating to its full value at maturity.

ANNUAL FISCAL INDICATORS REPORT (AFIR)

The AFIR shall contain the following sections:

- I. Annual Fiscal Indicators**
This section will include the ratios outlined in Section III. F. above.
- II. 5 Year Capital Improvements Plan**
This section will include a copy of the five year capital plan.

Mayor

Passed:

Attest: _____
Village Clerk