

City of River Falls, WI Debt Management Policy

Policy Statement:

The purpose for the Debt Management Policy is to provide a general framework for the use, management and reporting of the City's debt financing. The primary objective of the policy is to establish conditions for the use of debt and to create policies that minimize the City's debt service and issuance costs, retain a high credit rating in the financial community, and to maintain full and complete financial disclosure and reporting. In addition to adhering to this Debt Management Policy, the City's financing will also be in compliance with applicable Federal law, U.S. Securities and Exchange Commission (SEC), Wisconsin State Statutes, City Code, and other regulatory requirements.

Reason for Policy:

The City's Debt Management Policy is the guideline for City staff to use in recommending debt in order to assure the community that the City is well-managed, financially sound, and to obtain financing at the lowest cost. It will be the responsibility of the Finance Director, or designee, to recommend debt on behalf of the City. Upon City Council approval, the Finance Director, or designee, will coordinate to ensure that all financings are issued in full compliance with related laws and regulations. Any substantive modifications made to this policy must be approved by the City Council.

Definitions:

Arbitrage: According to [26 U.S. Code 148](#), arbitrage is related to the use of tax-exempt proceeds for reinvestment in higher yield taxable securities and the excessive accrual of interest revenue from bond proceeds.

Capital Improvement Plan (CIP): A multi-year financial planning tool that identifies capital projects for the City. The CIP is the primary tool used to plan for debt.

Capital Projects: The acquisition, creation, or improvement of City land, buildings, equipment, and infrastructure with a useful life of greater than one year and a minimum threshold of \$5,000.

Conduit Financing: A bond or other debt obligation issued by the City to finance a project for use by a third party. The term "conduit" refers to the fact that the City assumes no commitment to pay or guarantee payment of the debt service underlying the debt.

Continuing Disclosure: According to the [SEC Rule 15c2-12](#), continuing disclosure consists of important information about a municipal bond that arises after the initial issuance of the bonds. This information generally reflects the financial health or operating condition of the City as it changes over time, or the occurrence of specific events that can have an impact on key features of the bonds.

General Obligation (G.O.) Bonds: Debt issued by the City to finance any project undertaken for a public purpose. General obligation bonds are backed by the full faith and credit of the City.

Industrial Development Revenue Bonds (IDRB): Securities issued by the City, providing long-term, below-market rate financing of capital requirements for new and expanding industrial and commercial facilities.

Promissory Note: A signed document containing a written promise to pay a stated sum to a person or institution at a specific date or on demand.

Refunding Bond: A bond that retires another bond before the first bond matures. Primarily used due to a decline in the interest rates.

Revenue Bonds: Bonds issued to finance public utilities or projects with a dedicated revenue stream. Repayment is made from the revenues generated. Revenue bonds give the City the ability to recover the cost of a project from beneficiaries of the project or users of the facility.

State Trust Fund Loans: The Board of Commissioners of Public Lands (BCPL) of the State of Wisconsin has funds available to loan to Wisconsin cities. These “trust funds” are derived primarily from the sale of public lands and from penal fees.

Guidelines for Use

Debt is a financing tool which should be used when the City has legal, financial and market debt capacities and will be considered when some or all of the following conditions exist:

- The City will consider all available financing tools for funding projects including inter-fund borrowing, use of fund reserves, State of Wisconsin Trust Fund loan program, external financing and lease-purchasing;
- Financing of equipment or projects with short-term debt (5 years or less) is undertaken annually;
- Financing of certain equipment or projects with long-term debt (10 to 20 years) is undertaken every two to three years;
- Pay as you go financing will be used to fund general capital projects whenever feasible
- When bonds or promissory notes are the desired financing vehicle, the issue will be bid competitively;
- The term of the financing will not exceed the useful life of the capital project, facility or equipment financed

Types of Permitted Debt:

The City may utilize several types of municipal debt obligations to meet its financing objectives. All long-term debt financing shall be approved by the City Council. A list of the types of permitted debt for the City and the general guidelines for their use is as follows:

General Obligation Debt

General obligation debt is authorized to be issued by the City in the following variations: promissory note, State Trust Fund loan, refunding bonds, and corporate purpose bond. The term of general obligation debt is limited to 20 years from the original date of issuance.

Legal Debt Capacity

In accordance with Wisconsin Statutes, total general obligation indebtedness of the City shall not exceed 5 percent of the equalized value of taxable property within the City's jurisdiction. The City's goal is to maintain a ratio of not more than 50 percent of the legal debt limit.

Net Direct General Obligation Debt/Full Value

The goal of the City Council is to maintain a per capita general obligation debt ratio in the range of 2-4%. Sustaining this ratio will insure that adequate resources are available to repay outstanding long-term general obligation debt, without an undue burden on the community.

The general obligation debt ratio is measured by total outstanding general obligation long-term debt as of December 31 of each year, compared to the most recent year's equalized value. In planning capital projects and proposed financing, the effect on this ratio should be considered. General obligation debt supported by funds other than general obligation property tax revenues will not be included in this ratio. It shall be the responsibility of the Finance Department to calculate the general obligation debt ratio annually.

Debt Service/Total Revenues

The goal of the City is to not exceed a maximum 10 percent ratio of property tax supported debt service costs to total governmental fund revenues. This will ensure that the City maintains its ability to repay outstanding debts.

This ratio will be measured by annual property tax supported debt service cost in relation to annual revenues for all governmental funds. A maximum ratio of ten percent is desired, and future borrowing will be structured to maintain this ratio. General obligation debt supported by funds other than general property tax revenues will not be included in this ratio. This will be calculated after the annual audit by the Finance Department.

Debt Service Levy/Total Levy

The annual debt service levy goal is a maximum of 20 percent of total property tax.

Debt Service Repayment

The goal is to repay the City's general obligation debt within ten years, while debt from equipment is repaid within five years.

Debt Service Reserves

Debt service reserves will be established by bond ordinances to adequately meet debt service requirements as required.

Conduit Financing

The City may sponsor conduit financing to a third party for those activities and projects that have a general public purpose and are consistent with and benefit the City's [Strategic Plan](#). The projects, including economic development projects, health facilities projects, and infrastructure projects, must benefit the strategic initiatives of one of the following five goals:

- Ensuring financial sustainability;
- Consistently delivering quality municipal services;
- Promoting economic vitality;
- Connecting community members;
- Considering future generations

City's Role

Conduit debt is not included in the City's debt burden and is secured solely by the revenues of the third party. Principal and interest on conduit debt is paid solely from the net revenues of the project. Issuance of this debt does not constitute a general obligation of the City. The Finance Director, or designee, may impose a debt management fee on the borrower. All conduit financing must insulate the City completely from any direct credit risk or exposure.

The Finance Director, or designee, will be responsible for approving any conduit debt on behalf of the City before submitting it to the City Council for approval.

Borrower's Role

The obligated borrower will be responsible for paying all bond sale costs associated with the financing, including any debt management fee imposed by the City. The obligated borrower will also be responsible for funding any debt reserve requirement, if applicable. The obligated borrower is also responsible for providing a letter of credit from their bank to the Finance Director, or designee, prior to the debt being issued.

Industrial Development Revenue Bonds (IDRB) and Tax Exempt Mortgage Financing

[Chapter 66.521](#) of the Wisconsin State Statute permits municipalities to assist enterprises with business and industrial interests wishing to locate in the City through industrial development revenue bonds and tax exempt mortgage financing. The minimum bond amount shall be \$3 million, and the maximum bond amount shall be \$10 million per borrower. All IDRB's shall be limited obligations of the City. The borrower is solely responsible for principal and interest repayment.

Because the interest on IDRB's is exempt from federal tax, the interest rate on this type of financing is generally lower than conventional debt financing. Proceeds from the IDRB may be used to finance fixed assets and qualified costs associated with bond-financed projects.

Resolution No. 250

Resolution No. 250 sets forth the City's criteria and procedures for the issuance of IDRBS and tax exempt mortgage financing. The Finance Department and bond applicant will follow the criteria set forth in this resolution.

Additional Requirements

Staff Review

The City Administrator and the Finance Director shall review the IDRBS request. It is the duty of the prospective bond seller to initiate the staff review and to meet with and provide information necessary to complete the review. Basic information which must be provided, but not limited to, includes details of the proposed project, construction timetables, proposed revenue agreement for method of paying bonds and interest together with security for such payment, and if available, a commitment to purchase or underwrite the bonds from an appropriate financier.

Minimum Requirement

The City shall not consider a bond issue in which the bond sale is less than \$3 million.

Required Fees

The bond seller shall be required to pay a \$2,000 non-refundable application fee to the City, or designee, prior to the staff review of the project. This \$2,000 shall become the property of the City upon its receipt and will not be returned for any reason, including failure of the City Council to adopt the bond resolution. This \$2,000 payment shall be considered as reimbursement of direct City expenses relating to the bond issue and may be used by the City to offset costs of printing, postage and mailing, duplicating, clerical costs and staff time. In addition to the \$2,000 fee, the bond applicant is responsible for all direct out-of-pocket costs and legal fees.

Tax Exempt Entities

During the term of the bond, any entity exempt from property taxes will be required to make a payment in lieu of taxes to the Finance Department for the City's share of taxes on the assessed value of the improvements on the property.

Revenue Bonds

[Chapter 66.066](#) of the Wisconsin State Statute governs the issuance of revenue bonds. The term of revenue bonds is limited to 40 years from the original date of issuance.

Revenue Bond Uses

Revenue bond issues must be applied solely for purchasing, acquiring, leasing, constructing, extending, adding to, improving, conducting, controlling, operating or managing a public utility, and in the payment of the cost of any subsequent necessary additions, improvements, and extensions.

Interest Payments

Interest on the revenue bonds shall be paid to the bondholders according to the interest schedule set by the debt schedule. Payment of principal on the revenue bonds shall start no later than three years after the date of issue, or two years after the estimated date that the project will be completed, whichever is later.

State Trust Fund Loans

The Board of Commissioners of Public Lands (BCPL) may loan funds to the City for any project undertaken for a public purpose consistent with the purposes allowed for issuance of general obligation or revenue bonds. State trust fund loans shall be considered by the City when the interest rate offered makes the cost of borrowing less than or comparable to external financing notes or bonds after considering the cost of issuance.

State Trust Fund Loan Uses

The City may use general obligation state trust fund loans of 10 years or less to facilitate the performance of the City, including operations and maintenance.

The City can also use general obligation state trust fund loans greater than 10 years for the financing or refinancing of public purpose projects including, the acquisition, leasing, planning, design, construction, development, extension, enlargement, renovation, rebuilding, repair or improvement of land, waters, property, highways, buildings, equipment, or facilities.

General obligation state trust fund loans can also be utilized as a source of funding for economic development projects. Loans include pass-through loans for private development, funding development incentives, TID infrastructure loans, land acquisition, and development for business parks.

The term of general obligation state trust fund loans is limited to 20 years from the original date of issuance.

State Trust Fund Loan Payments

If the City has an active general obligation state trust fund loan, annual payments are due to the BCPL annually by March 15. Loans funded between September 1 and March 14 do not have a payment scheduled for the following March 15.

State Trust Fund Loan Prepayments

The Finance Department may make prepayments without penalty after January 1 and before August 31 annually, with 30 days prior written notice.

Other Obligations

There may be special circumstances when other forms of debt are appropriate and if their use is necessary or advantageous to the City. Their use may be evaluated by the Finance Director, or

designee, on a case-by-case basis. If other types of debts are utilized, applicable state and federal guidelines shall be followed.

Bond Record Retention

The Finance Department shall keep all records in compliance with the rules and regulations applicable to bonds pursuant to code and law including:

Records

- The transcript of proceedings (the official “record book”);
- Information showing how the proceeds of the bonds, including investment earnings on the bonds, are spent, which may include invoices and checks or other variable information;
- Records regarding the use of the project or prior project, including any private business use;
- Records, certifications, and opinions relating to any change of use of the project or prior project, including remedial action certificates and opinions;
- Documentation pertaining to any investment of proceeds of the bonds (bank or account statements, confirmations for the purchase and sale of securities, yield calculations for each class of investments, actual investment income received on the investment of proceeds, guaranteed investment contracts and rebate calculations)

Retention: Final Payment

The Finance Department shall retain such records until at least three years following the final payment of the bonds or the final payment of any issue or issues of tax-exempt bonds or notes refunding the bonds.

Retention: Refunding

If the bonds are refunded in the future, the Finance Department should keep the above information until three years after final redemption of the refunding obligations.

Arbitrage

Arbitrage rebates are paid to the government to prevent several problems from occurring including: the issuance of more bonds than are necessary; to prevent the issuance of bonds earlier than is necessary; to prevent bonds from remaining outstanding longer than is necessary.

The City shall use bond proceeds only for the purpose and authority for which the bonds were issued. In most circumstances, the City will want to avoid arbitrage rebates and will follow the following exemptions. However, in some circumstances the City may want to pay the arbitrage rebate. The reasons for paying the arbitrage rebate will be outlined by the Finance Department when issuing bonds.

Exemptions

Under 26 U.S. Code 148, exemptions for arbitrage rebate that the City should follow includes:

- Small Issuer Exception
 - The issue is issued by a governmental unit with general taxing powers;
 - The aggregate face amount of all tax-exempt bonds issued by the City during the calendar year is not to exceed \$5 million;
 - No bond which is part of such issue is a private activity bond;
 - At least 95 percent of the net proceeds of such issue are to be used for local government activities by the issuer;
- Spending (spend down) Over \$5 Million Exceptions
 - 6 months – 10 percent of bond proceeds
 - 12 months – 45 percent of bond proceeds
 - 18 months – 75 percent of bond proceeds
 - 24 months – 100 percent of bond proceeds (If the City can spend down 95 percent of the bond within the 24 months, the City shall have 36 months to spend down 100 percent of the bond)
- “Bona fide” debt service funds, subject to a limit of \$100,000 on annual earnings in the case of private activity bonds or governmental bonds that do not have a fixed rate of interest and a maturity of at least five years
- Payment of 1.5 percent penalty in lieu of arbitrage rebate no later than 90 days after the end of the spending period to which it relates
- Proceeds invested in tax-exempt obligations

Spend Down Schedules and Exceptions

During the process of issuing any type of debt, the Finance Department working with the project manager will provide spend down estimates of the debt. The Finance Department is also responsible for monitoring the actual spending of the debt and exercise best efforts to spend down bond proceeds in such a manner that the City will meet one of the spend-down exemptions from arbitrage rebate.

Spend down exceptions provide for the majority, 95 to 100 percent, of the bond proceeds to be spent down within two years of the issuance of debt. The specific date of the spend down goal shall be the settlement day/close date of the debt.

Reporting

All of the City’s tax-exempt issues, including lease purchase agreements, are subject to arbitrage compliance regulations. In accordance with IRS recommended practices, the Finance Department shall calculate arbitrage rebate computations no later than each five-year anniversary date of the issuance of the bond and at the final maturity for all bonds.

If any arbitrage rebate liability exists, the Finance Department shall report such liability in the year-end financial statements.

Arbitrage Rebates

Arbitrage rebates were created as a financial disincentive in order to prevent abuses. According to 26 U.S. Code 148, the arbitrage rebate will be treated as meeting the requirement only if an amount equal to the sum of the excess of the following is paid to the United States by the issuer:

- The excess of the amount earned on all nonpurpose investments and any income attributable to the excess amount earned;
- The amount which would have been earned if such nonpurpose investments were invested at a rate equal to the yield on the issue

Due Date of Arbitrage Rebate Payments

The amount which is required to be paid to the Internal Revenue Service (IRS) by the Finance Department, or financial consultant, shall be paid in installments which are made at least once every 5 years. Each installment shall be in an amount which ensures that 90 percent of the required amount is paid. The last installment shall be made no later than 60 days after the day on which the last bond of the issue is redeemed and shall be in an amount sufficient to pay the remaining balance that the City is required to pay.

A series of issues which are redeemed during a 6-month period shall be treated as one issue for purposes of the preceding sentence if no bond which is part of any issue in such series has a maturity of more than 270 days or is a private activity bond.

In the case of a tax and revenue anticipation bond, the last installment shall not be required to be made before the date 8 months after the date of issuance of the issue of which the bond is a part.

Continuing Disclosure

The City's debt obligations are subject to SEC Rule 15c2-12 (Rule), which regulates the timing and production of disclosure documents by brokers, dealers and underwriters of the City's securities.

Dealer's Requirements

The Rule requires dealers, when underwriting certain types of municipal securities, to ensure that the City, which is issuing the bonds, enters into an agreement to provide certain information to the Municipal Securities Rulemaking Board about the securities on an ongoing basis.

Required Information

Continuing disclosure agreements must require the following information:

Annual Financial Information

- The City's financial information and operating data as included in original official statement;
- The City's audited financial statements

Event Notices

Notice of any of the following 14 listed events with respect to the City's debt obligations must be reported within 10 business days:

- Principal and interest payment delinquencies;
- Non-payment related defaults;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions or events affecting the tax-exempt status of the security;
- Modifications to rights of security holders;
- Bond calls and tender offers;
- Defeasances;
- Release, substitution or sale of property securing repayment of the securities;
- Rating changes;
- Bankruptcy, insolvency or receivership;
- Merger, acquisition or sale of all issuer assets;
- Appointment of successor trustee

The following events with respect to the City's debt obligations can be voluntarily reported within 10 business days:

- Amendment to continuing disclosure undertaking;
- Change in obligated person;
- Notice to investors pursuant to bond documents;
- Certain communications from the Internal Revenue Service;
- Secondary market purchases;
- Bid for auction rate or other securities;
- Updates to capital or other financial plans;
- Quarterly strategic plan updates;
- Litigation/enforcement action;
- Change of tender agent, remarketing agent, or other on-going party;
- Derivative or other similar transaction;
- Other event-based disclosures

Exemptions

Continuing disclosure generally is not required for an issue if:

- The entire issue is for less than \$1 million;

- The bonds are sold to investors in units of no less than \$100,000 and are sold to no more than 35 sophisticated investors;
- The bonds are sold in \$100,000 minimum denominations and mature in nine months or less from initial issuance;
- The bonds were issued prior to July 1995 (or prior to December 1, 2010 for certain “puttable” securities.)

Electronic Municipal Market Access (EMMA)

[EMMA](#) provides free online access to disclosure information for municipal obligations. The Finance Department, or contracted financial consultant, must provide continuing disclosure documents electronically to the Municipal Securities Rulemaking Board through EMMA annually by the date specified in the continuing disclosure agreement, generally within 365 days of the year end.

Contracted Financial Consultant

The City may contract with a financial consultant to help comply with its continuing disclosure agreements, certificates and undertakings associated with each issue of securities subject to the Rule.

Reporting

In the event for which an event notice is to be filed, the Finance Director, or designee, shall provide disclosure information related to the event to EMMA, as required.

Selecting and Retention of Service Providers

The City recognizes the nature of the municipal bond industry such that specialized consultants may need to be retained. The Finance Director, or designee, is responsible for establishing a solicitation and selection process for securing professional services that are required to help implement the City’s debt management policy. The following contract advisors can be maintained for the City:

- Underwriters
- Bond Counsel
- Special Counsel
- Financial Advisor

Professional financial consultants in connection with the City’s debt management policy may be chosen through a request for qualifications process. If this process is used, the request for qualification process will be designed to select providers that offer the City the best combination of expertise and price. The objectives of the process will be to:

- Promote competition;
- Be as objective as possible;
- Incorporate clear and rationale selection criteria;

- Be independent of political influence;
- Be perceived as fair by the respondents;
- Result in cost-effective transaction;
- Result in the selection of the most qualified firm(s)

The City is not required to select the firm offering the lowest price. However, in cases where the lowest bidder is not recommended, the Finance Director, or designee, must provide a justification for the recommendation. All contracts will be approved by the City Council.

Credit Ratings

With any changes in the City's credit ratings, the Mayor, City Council and the City Administrator will be notified by the Finance Director.

Rating Agency Relationships

The Finance Director is responsible for maintaining relationships with the rating agencies that currently assign ratings to the City's various debt obligations. This effort shall include providing periodic updates on the City's financial condition along with coordinating meetings in conjuncture with a new debt issuance.

Use of Rating Agencies

The Finance Director will be responsible for determining whether or not a rating will be requested on a particular financing and which of the major rating agencies will be asked to provide such a rating.

Adopted by City Council at the February 23, 2016, resolution 6006.