Lenexa KANSAS

GOVERNING BODY POLICIES
Debt Policy (Resolution 2017-156)

Policy Number:	GB-Finance-3	**Effective Date:**	December 19, 2017
Approved By:	Governing Body	**Sunset Date:**	None
Approval Date:	December 19, 2017	**Prepared By:**	Finance Dept.
Repeals/Replaces:	Current Debt Policy (GB05-A)		
Statutory Authority:			
Cross References:	GB-Finance-4 (Post Debt Issuance Tax Compliance Policy); GB05-C (Special Benefit District Policy); GB05-E (Tax Increment Financing Policy); GB05-I (Community Improvement District Policy)		
Policy Purpose:	To establish guidelines for the issuance of City debt in order to achieve favorable credit ratings and minimize interest costs incurred on outstanding debt.		

1. Introduction.

A formal debt policy allows the City to properly plan for the financing of capital expenditures and minimize the interest costs incurred on outstanding debt. When evaluating the issuance of debt, the City will consider a number of factors:

- Adherence to the approved Capital Improvement Program (CIP).
- Potential for the debt-financed project(s) to create an increase in assessed valuation and/or sales tax revenue.
- The property tax or other revenue required to fund the annual debt service.
- Any other factors the City believes are pertinent.

This policy does not address industrial revenue bonds and other private activity debt that may be issued by the City (see the City's "Private Activity Conduit Financing Policy" for information on industrial revenue bonds and other private activity debt).

The City Manager and Chief Financial Officer have overall responsibility for enforcement of this policy.

The Governing Body may waive provisions of this policy provided the waiver does not violate state or federal law.

2. Ethics, Integrity & City Values.

Section 1-6-H-1 *et seq.* of the City Code establishes a Code of Ethics for all City employees. This Code of Ethics is reinforced through the City's Personnel Policies/Procedures and the City's values.

All City employees involved with the issuance of City debt shall act in an honest and professional manner in accordance with the City's values, Code of Ethics, and Personnel Policies/Procedures.

3. Method of Sale.

The City will market any debt issues on a competitive basis, unless circumstances related to unusual credit quality, issue size, or market access create a need for a negotiated sale process. If a negotiated sale process is necessary and appropriate, the City will normally select the underwriter(s) needed to accomplish the structuring, marketing, pricing, and sales of the bonds through a formal competitive selection process. The City Manager may approve exceptions to this formal competitive selection process after consulting with the City's bond counsel and financial advisor. City staff and the City's financial advisor will be directly involved in all pricing for the negotiated sale of debt.

4. General Obligation Bonds, Special Obligation Bonds, and Temporary Notes.

The City will normally issue general obligation bonds for equipment, land acquisition, buildings, and other public improvements. The maximum maturity of the bonds shall not exceed the estimated useful life of the capital item(s) being financed with the bonds. As a general guideline, the City will structure debt for normal capital improvement projects to mature over 10 to 15 years or the estimated useful life of the project, whichever is less. In addition, the City will normally structure debt service for general obligation bonds on a level payment basis with at least 60% of the debt service occurring during the first 10 years of the bond issue. When possible, special assessment revenues or other available revenues will be pledged for the payment of debt service in order to reduce the financial burden on the City-at-large.

The City may issue special obligation bonds for special benefit district projects. These bonds are secured by special assessments levied on property owners within the special benefit district and by the City's full faith and credit. The City will structure debt for special benefit district projects to mature over 10 to 20 years or the estimated useful life of the project, whichever is less. The City's Special Benefit District policy includes additional information on the process for establishing a special benefit district.

The City will normally issue general obligation temporary notes for equipment, land acquisition, buildings, and other public improvements. The maximum maturity of the bonds shall not exceed the estimated useful life of the capital item(s) being financed and will not exceed four years from the date of issue. The City will determine call provisions and other special provisions on a project-by-project basis. The City may sell temporary notes in a public sale or may decide to issue temporary notes without a public sale (including the City buying and holding the temporary notes as an investment).

The City may choose to request ratings on general obligation bonds and temporary notes from credit rating agencies after consulting with the City's bond counsel and financial advisor.

5. Lease Obligations and Other Long-Term Financing Agreements.

The City may use lease obligations and other long-term financing agreements for the use and acquisition of capital assets. The City will follow these guidelines when considering the use of lease obligations and other long-term financing agreements:

- The Finance Department will review and document the justification for each proposed transaction. The justification will include an explanation for not recommending pay-as-you-go financing or general obligation debt financing.
- The justification will include a financial analysis of the options (including projected cash flows over the life of the transaction) to identify the lowest cost option available to the City.
- The scheduled maturity of the transaction shall not exceed the estimated useful life of the capital asset or 20 years, whichever is less.

6. Tax Increment Financing (TIF) Bonds.

The City may issue TIF bonds to finance eligible redevelopment project expenses incurred in a TIF district. Normally, the City will issue TIF bonds as special obligations supported by incremental revenues generated from the TIF district (and not secured by the City's full faith and credit). The maximum maturity of TIF bonds shall not exceed the estimated useful life of the project or 20 years, whichever is less. The minimum issue size for TIF bonds is $5,000,000, unless the Governing Body approves an exception to allow a lower issue amount. The City's TIF policy includes additional requirements for the issuance of TIF bonds.

7. Community Improvement District (CID) Bonds.

The City may issue CID bonds to finance eligible project expenses incurred in a CID district. Normally, the City will issue CID bonds as special obligations supported by a CID sales tax and/or special assessments levied within the CID district (and not secured by the City's full faith and credit). The maximum maturity of CID bonds shall not exceed the estimated useful life of the project or 22 years, whichever is less. The minimum issue size for CID bonds is $3,000,000, unless the Governing Body approves an exception to allow a lower issuance amount. The City's CID policy includes additional requirements for the issuance of CID bonds.

8. Sale to Accredited Investors.

The City wants to ensure all of its debt issues are purchased by investors fully knowledgeable of the risks involved with the investment. For issues of a highly speculative nature (due to the type of project or the revenue structure), the City will require the purchase of debt by qualified investors (generally defined by the Securities and Exchange Commission, Regulation D). In addition, the City will require minimum denominations of $100,000 to ensure qualified investors are maintained in both the primary and secondary debt markets. The Governing Body may waive this minimum denomination requirement after consulting with the City's bond counsel and financial advisor.

9. Derivatives.

The City will cautiously plan for the potential use of derivative products. If considering the potential use of derivatives, the City will carefully examine these products (which usually take the form of non-traditional financing structures) on a case-by-case basis by analyzing the full costs and benefits of the derivative option and obtaining third party opinions (usually from the City's financial advisor) on the appropriateness of the derivative option. The City will only consider derivatives in very specific debt scenarios and not for basic City infrastructure projects. If the City selects a derivative option, the Finance Department will establish procedures to monitor the financial status of the derivative product on an on-going basis.

10. Refinancing Existing Debt.

The City will consider refinancing existing debt when legally permissible and financial advantageous. In addition, the City may consider refinancing existing debt for restructuring purposes when revenue collections have declined and refinancing is necessary to avoid a potential default event. Generally, the City seeks to achieve a net present value benefit of at least 3% of refunded debt service for advance refunding transactions permitted by federal law. This 3% level is only a guideline when refinancing to reduce interest costs – the City may elect not to advance refund existing debt even if the City can achieve the 3% guideline. In addition, the City will evaluate the present value benefit of potential current refunding transactions on a case-by-case basis.

11. Post Issuance Compliance.

The City has established a separate "Post Debt Issuance Tax Compliance Policy." This policy establishes best practices for the City to follow regarding compliance with federal tax law after the issuance of governmental tax-exempt debt (including ongoing disclosure requirements and arbitrage monitoring/reporting requirements). For existing tax-exempt debt, the City will endeavor to avoid any action(s) which could cause the debt to be taxable.

12. Reporting and Monitoring of Existing Debt.

The City will monitor existing debt amounts and annual trends of key financial and debt ratios. In addition, the City will strive to meet any reasonable standards established by the credit markets.

Specifically, the City will monitor the following ratios:

- Ratio of property tax supported debt service to discretionary revenues.

- Ratio of property tax supported debt service to total revenues.
- Ratio of outstanding general obligation debt to the statutory debt limit.

The City will strive to maintain available debt capacity of at least 30% of the statutory debt maximum calculation.

13. Definitions.

Advance Refunding: A financing technique that allows an issuer to obtain the benefit of lower interest rates by issuing new debt when the existing debt is not currently eligible for redemption. The proceeds from the sale of the new debt are used to purchase taxable government securities, which are deposited in an escrow account. The escrow account is structured so that the principal amount of the securities plus interest earned is sufficient to pay all principal and interest due on the existing debt.

Appraised Valuation: The approximate market value established for a parcel of property by the Johnson County Appraiser's Office.

Assessed Valuation: A fixed percentage of the appraised value for a parcel of property established by state law.

Current Refunding: A transaction where the existing debt being refinanced will mature or be redeemed with 90 days or less from the date of issuance of the new debt.

Derivative: Contract where the contract value depends on or derives from the value of an underlying asset, reference rate, or index.

General Obligation: Debt secured by the issuer's full faith and credit.