CITY OF PARKVILLE, MISSOURI

Policy Title:	Debt Management Policy		
Policy Number:	100-05	**Category**:	Board
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INTRODUCTION

The issuance of debt is a strategy for financing major capital expenditures that otherwise might not be achievable with pay-as-you-go financing. Determining the method and timing for financing is subject to numerous considerations. For the purpose of this policy, debt financing includes general obligation bonds, special assessment bonds, revenue bonds, temporary notes, lease/purchase agreements including certificates of participation, and other City obligations permitted to be issued or incurred under Missouri law.

The Debt Management Policy sets forth guidelines for the financing of capital expenditures. It is the objective of the policies that (1) the City obtain financing only when necessary, (2) the process for identifying the timing and amount of debt or other financing be as efficient as possible, (3) the most favorable interest rate and other related costs be obtained, and (4) when appropriate, future financial flexibility be maintained.

The cost of financing through the issuance of debt is also affected by the strength of the City's financial position. Bond ratings and investor's bids are influenced by the City's debt management policies, as well as, the overall financial policies of the City. The City's debt policies are intended to encourage conservative debt management while maintaining the flexibility to use the various financing mechanisms that are available to the City.

POLICIES

1. General Policies

a. To enhance creditworthiness and prudent financial management, the City is committed to systematic capital planning, intergovernmental cooperation and coordination, and long-term financial planning. Evidence of this commitment to capital planning will be demonstrated through adoption and periodic adjustment of the Parkville Master Plan and the annual adoption of a Capital Improvement Program (CIP) identifying the benefits, costs, and method of funding each capital improvement planned for the succeeding five years.

b. Long-term borrowing shall be limited to capital equipment and capital improvements that cannot be financed from current revenues. Long-term debt shall not be used for ongoing operating and maintenance expenditures.

c. In general, long-term financing will only be considered under the following circumstances:

    i. When the project/equipment is included in the City's CIP and is in conformance with the Parkville Master Plan.

    ii. When the project/equipment is not included in the City's CIP but it is an urgent need or it is a project/equipment mandated immediately by state or federal requirements, or it is a desirable project/equipment for which grant money has been offered and the matching funds are not readily available from other sources.

    iii. When the project is the result of growth-related activities within the community that require unanticipated and unplanned infrastructure or capital improvements by the City.

    iv. When there are designated revenues sufficient to service debt, whether from project revenues, other specified and reserved resources, or infrastructure cost sharing revenues.

d. Any capital improvement projects or capital equipment financed through debt should be financed for a period not to exceed the expected useful life of the project or equipment.

e. Total debt outstanding, including overlapping debt, will be considered when planning additional debt issuance.

f. Financing requirements will be reviewed annually. The timing for financing will be based upon the City's need for funds, market conditions and debt management policies.

g. The City seeks to maintain the highest possible credit ratings for all categories of short- and long-term general obligation and revenue debt that can be achieved without compromising the delivery of basic City services and the achievement of adopted City policy objectives. The City recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Nevertheless, the City is committed to ensuring that actions within its control are prudent.

h. In general, the City will issue general obligation debt through a competitive bidding process. Bids will be awarded on a true interest cost basis (TIC), provided other bidding requirements are satisfied. Issuance of other City debt will be by competitive bidding process or negotiated sale depending on the nature of the debt being issued. Factors to be considered in determining the form of sale include, but are not limited to, the complexity of the issue; the need for specialized expertise; maximizing savings in time or money; or circumstances in which market conditions or City credit are unusually volatile or uncertain. The underwriter(s) for a negotiated sale will be selected through a competitive request for proposals process that considers criteria such as experience, capacity, expertise, and price.

i. The primary responsibility for administering this policy rests with the City Administrator, who shall be assisted by other City staff. The primary responsibility for adopting, and for periodically reviewing and as needed amending, this policy rests with the Board of Aldermen upon recommendation from the Finance Committee.

2. Evaluation Criteria

The following criteria will be used to evaluate pay-as-you-go versus debt financing in funding capital improvements and equipment:

a. Factors which favor pay-as-you-go financing include the following:

   i. Current revenues and fund balances are available.

   ii. Phasing-in of projects is feasible.

   iii. Additional debt levels would adversely affect the City's credit rating.

   iv. Market conditions are unfavorable or suggest difficulties in marketing new debt.

b. Factors which favor debt financing include the following:

   i. Revenues available for debt issues are considered sufficient and reliable so that long-term financing can be marketed with an appropriate credit rating, which can be maintained;

   ii. Market conditions present favorable interest rates and demand for City debt financing.

   iii. A project is mandated by state or federal government and current revenues or fund balances are insufficient to pay project costs.

   iv. A project is immediately required to meet or relieve capacity needs.

   v. The life of the project or asset financed is five years or longer.

   vi. The life of the project or asset is less than five years, but short-term financing that does not exceed the useful life of the project or asset is feasible.

   vii. Cost savings can be achieved by completing improvements as a single large project rather than as a multi-year series of pay-as-you-go smaller projects.

c. The City shall use an objective analytical approach to determine whether it can afford to assume new general obligation bonds beyond what it retires each year. Generally this process will evaluate debt levels compared to key demographic data such as debt per capita, debt as a percentage of taxable value, debt service payments as a percent of current revenues and expenditures, and the overlapping debt of all local taxing jurisdictions. The process shall also examine the direct costs and benefits of any proposed expenditures.

d. For eligible projects, the City should consider a Fewson Fund loan as an alternative to traditional debt financing in order to eliminate or reduce financing costs. Fewson Fund loans should be evaluated based on the criteria outlined in the Fewson Fund Policy, adopted by Resolution No. 12-01-13.

e. For the City to issue new revenue bonds, projected annual revenues shall exceed projected debt payments to a level that will ensure prudent coverage provisions based on type of revenues and market conditions.

f. The City shall exercise caution with the issuance of tax increment financing bonds, special assessment bonds, or other debt instruments for economic development purposes. In general, the following conditions will apply:

   i. Economic development debt financing will only be considered for public improvements that accommodate growth and development with a direct economic impact.

   ii. The City should avoid use of debt financing for speculative projects.

   iii. The applicant must demonstrate that future city property and/or sales taxes will equal or exceed the value of the debt financing incentive during the term of debt issue. The City reserves the right to perform an independent cost-benefit analysis, at the applicant's cost, to verify (1) the project's return on investment for the City and (2) feasibility and capacity of the development to generate revenues adequate to cover annual debt service.

   iv. The applicant must receive approval for a preliminary or final development plan before or in conjunction with the Board of Aldermen's consideration of economic development debt financing. The City desires to confirm that the proposed development is consistent with the Parkville Master Plan and all applicable development standards and regulations before conferring economic development incentives.

   v. The applicant may be required to enter into a development agreement with the City as a condition of debt financing. The development agreement will address the standards and conditions unique to each project such as, but not limited to, collateral to secure the City's debt financing risk and milestones that must be met by the applicant before debt is issued.

3. Administration and Financing

a. All payments of general obligation bonds and revenue bonds shall be from a segregated debt service fund established for that purpose. The fund balance plus anticipated revenues will be maintained at a level equal to or greater than the total principal and interest payable from that Fund for the upcoming semi-annual debt service payment.

b. All general obligation and revenue bond proceeds shall be invested separate from the City's consolidated cash pool unless otherwise specified by the bond legislation. Investments will be consistent with those authorized by state law and the City's applicable investment policies in order to maintain safety and liquidity of the funds.

c. The City will retain external bond counsel for all debt issues. All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the debt, stating that the City has met all State constitutional and statutory requirements necessary for issuance, and determining the debt's federal income tax status. The bond counsel retained must have comprehensive municipal debt experience and a thorough understanding of Missouri law as it relates to the issuance of municipal debt.

d. The City will retain an external independent financial advisor to be selected through a competitive request for proposals process. The financial advisor shall not have a relationship with any underwriters. The major criteria in the selection process for a financial advisor will be comprehensive municipal debt experience, experience with diverse financial structuring and pricing of municipal securities, as well as overall cost of services.

4. Debt Limitations

a. Debt will be structured to achieve the lowest possible net cost to the City given market conditions, the urgency of the capital project, the type of debt being issued, and the nature and type of repayment source. Moreover, to the extent possible, the City will design the repayment of its overall debt so as to rapidly recapture its debt capacity for future use.

b. The Missouri Constitution permits a city, by vote of two-thirds of the voting electorate, to incur general obligation indebtedness for city purposes not to exceed 10% of the assessed value of taxable tangible property. The City may issue additional debt not to exceed 10% of assessed valuation (20% total) for street and sewer improvements, or purchasing or constructing water or electric utility plants. The City's total general obligation indebtedness should not exceed 80% of the limit prescribed by State law.

c. The City does not have a prescribed limit for per capita general obligation bond principal. In evaluating opportunities to issue debt, the City will maintain per capita debt levels at rates reflective of infrastructure needs, population growth, bond rating standards, and other relevant factors.

d. The City will not issue short term tax anticipation debt.

5. Refunding of Debt

a. Periodic reviews of all outstanding debts will be undertaken to determine refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding or the refunding is essential in order to modernize covenants essential to operations and management.

b. City staff and the financial advisor shall monitor the municipal bond market for opportunities to obtain interest cost savings by refunding outstanding debt. As a general rule, current refundings will be undertaken only if there is a present value savings, and advanced refundings will be undertaken only if the present value savings, after refinancing costs, exceed 3% of the refunded debt service.

c. Refunding issues that produce net present value savings of less than the targeted amount may be considered on a case-by-case basis. Refunding issues with negative savings will not be considered unless there is a compelling public policy objective.

6. Conduit Financings

a. The City may sponsor conduit financings in the form of Chapter 100 Industrial Revenue Bonds for those economic activities that have a general public purpose and are consistent with the City's overall service and policy objectives as determined by the Board of Aldermen. All conduit financings must insulate the City completely from any credit risk or exposure and must first be approved by the Finance Committee before being submitted to the Board of Aldermen for consideration. The City will retain the right to approve the underwriter and bond counsel, require compliance with disclosure and arbitrage requirements, and establish minimum ratings or credit worthiness acceptable for conduit debt. Credit enhancements, such as insurance or letters of credit, may be required for certain issues.

7. Post Issue Management

a. The City will establish procedures for ensuring the City is compliant with tax-exempt financing rules and regulations.

b. Federal arbitrage legislation is intended to discourage governmental entities from issuing tax-exempt obligations unnecessarily. In compliance with the spirit of this legislation, the City will issue obligations only when it appears the proceeds will be utilized in a timely fashion. Because of the complexity of arbitrage regulations and the severity of non-compliance penalties, the City will engage outside consultants when arbitrage related questions arise and to calculate potential arbitrage liability.

c. The City is committed to meeting secondary disclosure requirements on a timely and comprehensive basis. The City is committed to full and complete primary and secondary financial disclosure and to cooperating fully with rating agencies, institutional and individual investors, City departments and agencies, other levels of government, and the general public to share clear, comprehensible, and accurate financial information.

d. Official statements accompanying debt issues, audited financial statements, and continuing disclosure statements will meet (at a minimum), the standards articulated by the Government Accounting Standards Board (GASB), the National Federation of Municipal Analysts, the Securities and Exchange Commission (SEC), and Generally Accepted Accounting principles (GAAP).

e. The City shall take care to stay in compliance with all continuing disclosure agreements entered into in connection with issuance of debt. The City should thoroughly understand its obligations to gather and keep current the required information. The City will post the year-end financial report along with any other required information to the Electronic Municipal Market Access (EMMA) site maintained by the Municipal Securities Rulemaking Board (MSRB) within the time agreed to in the disclosure agreement. If a material event occurs as identified by the agreement, the City will file a notice to EMMA within 10 business days.