

CITY OF OLATHE		Policy No.:	F-1
COUNCIL POLICY STATEMENT		Date Issued:	11-16-10
General Scope:	Finance	Effective Date:	11-16-10
Specific Subject:	Debt Management and Fiscal Policy	Cancellation Date:	
		Supersedes No.:	Listed Below

Purpose:

To set forth the general public policy objectives of the city as relates to debt management and fiscal policy.

Statement of Policy:

The statement of policy is hereby incorporated with Resolution No. 10-1073. Previous debt management and fiscal policy was incorporated by Resolution Nos. 01-1115, 99-1002 and 89-1213.

RESOLUTION NO. 10-1073

A RESOLUTION ADOPTING A DEBT MANAGEMENT AND FISCAL POLICY FOR THE CITY; AND REPEALING RESOLUTION NO. 01-1115.

WHEREAS, the city government has an important responsibility to its citizens to carefully account for public funds, to manage municipal finances wisely and to plan the adequate funding of services and improvements; and

WHEREAS, the capital improvements must be structured by ability to pay in order to maintain fiscal stability; and

WHEREAS, there is a necessity to establish debt management policy and guidelines to provide the structure of continuing fiscal stability, reduce financial risk and maintain adequate contingency assets for present and future requirements.

NOW, THEREFORE, BE IT RESOLVED BY THE GOVERNING BODY OF THE CITY OF OLATHE, KANSAS:

SECTION ONE: The Governing Body of the City hereby adopts the debt management and fiscal policy as set forth following.

“DEBT MANAGEMENT AND FISCAL POLICIES”

A. General Policies

1. The city will conduct its debt management functions in a manner designed to maintain or enhance its existing general obligation and utility revenue bond credit ratings with Moody’s Investor Services and Standard & Poor’s Corporation. It is the City’s ultimate goal to achieve a Triple A rating from both credit agencies for general obligation debt.
2. Debt issuance will be utilized by the city only in those cases where public policy, equity and efficient use of limited resources favor debt over contemporary financing. Decision criteria considered shall include the following:
 - (a) Debt shall be self-supporting whenever possible. Self-supporting is the use of revenue bonds, special assessments, or other capital improvement charges rather than general property taxes.
 - (b) Debt shall be primarily used to finance capital projects with a relatively long life expectancy, i.e., ten (10) years or greater.
 - (c) Debt shall be issued in such a way so that the term of the financing does not exceed the useful life of the asset.

B. Capital Improvements Program

1. A capital improvements program shall be prepared, submitted to and approved by the Council annually.

2. The capital improvements program shall consist of a 10-year priority listing of long term capital projects, accompanied by a financing plan which finances all projects in the first 5 years of the plan, noting current revenue or debt funding, and if debt funded, by the appropriate repayment revenue source. The financing plan shall be in accordance with the debt management policies contained herein.
3. It is the intent of these policies that authorized projects must be part of an adopted capital improvements program.

C. Management

1. It shall be the responsibility of the city manager and his staff to maintain all necessary files associated with the issuance of city debt.
2. The city manager shall submit for Council consideration a fiscal impact statement prior to any Council action to authorize a project involving the issuance of debt. The fiscal impact statement shall contain, at a minimum, an estimate of the debt service levy to be required at the time of long term debt issuance and a calculation showing the impact of this additional levy to the existing debt service levy at that time. The fiscal impact statement shall provide information on any projected user fee rate increases in the case of revenue bond financing.
3. A municipal equipment fund shall be established and funded annually to ensure that adequate funds are available to purchase replacement equipment on a timely basis. This program is designed to stabilize budgeting for major equipment purchases and to fund that part of the city's capital budget related to equipment purchases.

D. Debt Issuance Purposes and Revenue Sources

1. Benefit district debt shall be issued in conformance with the city's policies on benefit district creation and financing. The following provisions shall apply:
 - (a) Bonds may be secured by the full faith and credit pledge of the city, but assessment payments shall be adequate to pay 100 percent of debt service unless otherwise stipulated by the creation document.
 - (b) Benefit district project costs shall include all construction, engineering, financing, legal and administrative costs of the program.

- (c) Assessments for benefit district improvements will include a maximum of 5% of the total cost of the improvement to reimburse the city for services rendered by the city in the administration and supervision of the improvement by its general officers. See K.S.A. 12-6a 01(d). Reimbursement will be charged in accordance with the following schedule:

	Project Cost	
	5.0%	Up to \$ 100,000
\$ 5,000 Plus	4.0%	Over \$ 100,000
\$11,000 Plus	3.0%	Over \$ 250,000
\$18,500 Plus	2.0%	Over \$ 500,000
\$28,500 Plus	1.5%	Over \$1,000,000
\$51,000 Plus	1.0%	Over \$2,500,000

- (d) Outstanding bonds will be retired when sufficient revenues are accumulated.
 - (e) Debt will not be issued by the city to finance projects for the entities that have the authority to issue tax-free bonds for those purposes. U.S.D. 233 is exempted from this policy.
2. General capital improvements shall be financed in accordance with the capital improvements program. Funds shall be available for the financing of general improvements in accordance with the following:
- (a) To the extent funds described in paragraph D.2.(a) above are in excess of that required by the city's general fund operating budget, the excess amount shall first be used to fully fund the operating capital general fund reserve to the level required by these policies and then used for pay-as-you-go financing of general capital improvements.
 - (b) It shall be a goal of the city to finance at least a portion of the city-at-large capital improvement budget with pay-as-you-go financing with current resources.
 - (c) Debt service payments on non-benefit district general obligation bonds, not abated by other revenues, shall be paid from the debt service property tax levy.
 - (d) It is the City's goal to maintain and fund a Capital Project Reserve (CPR) Fund in order to fund the initial design or costs of projects, so that the city is in a position to have shovel-ready projects when opportunities arise to obtain grant funding.

- (e) It is the city's practice to issue temporary notes for project expenditures anticipated to occur less than one year from the time of note issuance. Temporary note issuances will be planned to correspond with an annual long-term bond issuance, with a closing date designed to allow for all outstanding temporary notes from the prior year to be repaid on their due date each year. Long term bonds will be issued only for completed projects or portions of projects.
- 3. Debt issued for water, sewer and other purposes for which operating and capital needs are supported by user fees shall be in the form of revenue bonds secured by the appropriate user fees and other utility revenues. User fees shall be adequate to support operating requirements and revenue bond covenants for each purpose, i.e., water user fees support only water and sewer user fees support only sewer.
- 4. Refundings or prepayment of outstanding debt may occur when the possibility of interest cost reduction exists, or the city wishes to restructure its debt service and/or amend its contractual bond requirements.
- 5. The City may be asked to issue revenue-only bonds relating to economic development. These bonds normally take the form of tax increment financing (TIF), transportation development district (TDD) or community improvement district (CID) bonds. The Governing Body has approved separate, detailed policies for each of these forms of economic development bonds.

E. Debt Issuance Limits, Debt Structure and Repayment Schedules

- 1. The city shall use the following limits to guide issuance of debt:
 - (a) The City's goal will be to not exceed seventy (70) percent of its statutory debt limit.
 - (b) Performance measures for the debt management process will be defined and monitored as part of the City's Balanced Scorecard process.
- 2. Debt structure shall be designed in accordance with the following, unless the City's financial advisor or bond counsel recommends an alternative approach:
 - (a) Issue tax-exempt debt when feasible. Taxable debt may be issued if required by IRS regulation or if advantageous tax-rebated bond products are available under Federal or state law, or if it is in the City's best interest to issue taxable debt to mitigate its risk of non-repayment.

- (b) Fixed rate obligations only for general obligation debt. Fixed rate revenue bonds, COP's and special obligation bonds, unless variable rate debt provides for reduced interest costs over a multi-year period, and significant flexibility in redeeming the bonds. If variable rate obligations are issued, the City shall budget debt service obligations at then fixed rate levels to in part ensure against interest rate increases, along with other cash reserves to further mitigate periods of prolonged high short-term interest rates.
 - (c) Debt should be marketed on a competitive bid basis if feasible. A negotiated sale may be undertaken upon the recommendation of bond counsel or financial advisor if one or more of the following conditions exist: issue lacks sufficient credit quality, the principal amount is extremely large or small, the issue to appeal to a relatively narrow investor base, the bonds are issued under a new legal authority, or the market is experiencing extreme volatility.
 - (d) Optional prepayment provisions may be included in each bond issuance.
 - (e) Derivative transactions are prohibited unless specifically approved by the City's Governing Body.
3. Repayment schedules shall be designed to relate to the useful life of the asset and generally be in accordance with the following:
- (a) Ten (10) years for most general obligation public improvement debt. The City's goal is to structure debt with even principal payments over the life of the debt portfolio as a whole, taking into consideration the forecasted revenues for the Debt Service Fund. Utility revenue debt will be structured in a similar way, except that repayment terms may be for a longer period of time due to the long-lived nature of utility infrastructure improvements.
 - (b) Ten (10) years for benefit district debt. Debt will be structured as set forth in Section 3.a. e.
 - (c) Ten (10) to twenty (20) years for capital improvements of citywide significance and where justified by the magnitude of the project.
 - (d) On an overall basis, it is the intention of the City that all general obligation debt, less temporary notes, be structured to retire at least eighty (80) percent of the city's indebtedness within ten (10) years.
 - (e) The City shall insure that it fully complies with all state and federal regulatory compliance, including post-issuance compliance related to continuing disclosure and arbitrage rebate.

- (f) The City understands the importance of high credit quality to reducing its costs of debt issuance. To that end, the City will maintain ongoing communications with the rating agencies, keeping them apprised of information central to the credit rating determination.

F. Operating Reserves

1. The maintenance of adequate operating reserves is essential to the financial strength and flexibility of the city as a whole. They are an integral part of the financial structure of the city and help make it possible for the city to issue debt. Operating reserves are a significant factor considered in evaluating and assigning credit ratings by the bond rating agencies.
2. In order to meet potentially unanticipated needs it shall be the goal of the city to maintain the following reserves:
 - (a) An annual reserve in the general fund operating budget equal to fifteen (15) percent of annual revenues.
 - (b) A sixty (60) day reserve in enterprise funds, as well as all reserves required by revenue bond indentures to remain in complete compliance with bond issue covenants.
 - (c) An annual cash basis and contingency reserve in the debt service fund of at least ten (10) percent of the annual principal and interest and capital improvement lease payments. This includes beginning debt service fund cash, current year revenues, transfers, and general fund revenues dedicated towards COP's, PBC's, etc., divided by current liabilities of G.O. debt plus COP's, PBC's, etc.

G. Fund Balance

1. It shall be the goal of the City to maintain a minimum fund balance in the general fund of 15% of revenues, with an annual target of 30% of revenues. Ratings agencies prefer fund balance levels at or near 30% of revenues for entities at or aspiring to Triple A status. This minimum fund balance calculation includes and is cumulative with the provisions of section F.2.
2. The Governing Body may approve the use of budgeted reserves in the case of emergency events, or conditions that result in unanticipated expenditure requirements or revenue fluctuations within a fiscal year, or to take advantage of an extraordinary opportunity.
3. The City desires to establish a fund balance classification policy consistent with the needs of the City, and in a manner consistent with governmental accounting standards. The following classifications serve to enhance the usefulness of fund balance information:

- (a) Non-spendable: assets legally or contractually required to be maintained, or are not in spendable form. Such constraint is binding until the legal requirement is repealed or the amounts become spendable.
 - (b) Restricted: assets with externally imposed constraints, such as those mandated by creditors, grantors and contributors, or laws and regulations. Such constraint is binding unless modified or rescinded by the applicable external body, laws, or regulations.
 - (c) Committed: assets with a purpose formally imposed by resolution by the Governing Body of the City, binding unless modified or rescinded by the Governing Body.
 - (d) Assigned: assets constrained by the expressed written intent of the City Council, City Manager, Director of Resource Management or designee. Encumbrances shall be considered as assigned, unless they specifically meet the requirements to be committed or restricted.
 - (e) Unassigned: all amounts not included in other fund balance classifications. The general fund shall be the only fund to report positive unassigned fund balance. All other governmental funds may report negative unassigned fund balance.
4. For unrestricted fund balance, committed amounts should be reduced first, followed by assigned amounts, followed by unassigned amounts.
 5. Compliance with Sections G.3. and G.4. will be reviewed in conjunction with the annual budget process.

SECTION TWO: Resolution No. 01-1115 is hereby repealed.

SECTION THREE: This Resolution shall take effect immediately.

ADOPTED by the Governing Body this 16th day of November, 2010.

SIGNED by the Mayor this 16th day of November, 2010.

/s/ Michael E. Copeland
Mayor

ATTEST:

/s/ Donald T. Howell
City Clerk

(SEAL)

APPROVED AS TO FORM:

/s/ Thomas A. Glinstra
Municipal Counsel