RESOLUTION R-2021-72

A RESOLUTION APPROVING A DEBT MANAGEMENT POLICY FOR THE CITY OF WHEATON

WHEREAS, the City of Wheaton, Illinois (the "City") is an Illinois Home Rule Municipality pursuant to provisions of Article VII, Section 6 of the Illinois Constitution of 1970, and as such the City may exercise any power and perform any function pertaining to its government and affairs; and

WHEREAS, the Debt Management Policy has been included and approved with the annual budget since fiscal year 2002/03; and

WHEREAS, the Director of Finance and City's Financial Advisor, Robert W. Baird & Co. Inc., have performed a comprehensive review and update of the Debt Management Policy and presented such to the City Council; and

WHEREAS, the City Council has reviewed the updated Debt Management Policy and has determined that it is in the best interest of the City and residents to adopt the updated Debt Management Policy.

NOW, THEREFORE, BE IT RESOLVED by the Mayor and City Council of the City of Wheaton, DuPage County, Illinois, as follows:

Section 1: The Debt Management Policy attached to this Resolution as Exhibit A and incorporated in this Resolution by reference ("Debt Management Policy") is hereby approved.

Section 2: The City Manager and Director of Finance are hereby authorized and directed to undertake any and all acts necessary to implement the policies, goals, and objectives as set forth in the Debt Management Policy.

ADOPTED this 16th day of August, 2021.

Philip J Suess

Mayor

ATTEST:

Andrea Rosedale

Deputy City Clerk

	<u>Roll Call Vote:</u>
Ayes:	Councilman Barbier Councilwoman Bray-Parker Councilman Brown Mayor Suess Councilwoman Fitch Councilwoman Robbins Councilman Weller
Nays:	None
Absent:	None
	<u>Motion Carried Unanimously</u>

Exhibit A

CITY OF WHEATON, ILLINOIS
Debt Management Policy
August 16, 2021

I. PURPOSE

This Debt Management Policy ("Policy") sets forth comprehensive guidelines and promotes sound decisions concerning the City of Wheaton's ("City") issuance of debt to provide services to the community while retaining the City's fiscal soundness and future financial flexibility. This Policy covers all debt issued by the City including debt issued on behalf of the Wheaton Public Library to facilitate library services.

II. OBJECTIVE

It is the objective of this Policy for the City to obtain debt financing only when necessary; to set forth the process to identify the timing and amount of debt needed to be as efficient as possible; and proceed with the method of sale that will generate favorable interest rates and minimize other costs.

III. GOALS

In following this Policy, the City shall pursue the following goals when issuing debt:

- Maintain or improve the City's credit rating on existing or future debt issues.
- Take all practical precautions to avoid any financial decision that would negatively impact current credit ratings on existing or future debt issues.
- Effectively utilize debt capacity in relation to the City's tax base, or utility rate base to meet long-term capital requirements. One of the City's Strategic Priorities is Enhanced Infrastructure. The City strives to ensure the City's infrastructure meets the community's service levels and expectations. Investing in infrastructure and capital assets is critical to maintaining a high quality of life, supporting public health and safety, and for fostering economic growth. The City's 5-year Capital Improvement Plan (CIP) is updated annually and approved in conjunction with the annual budget. Projects included in the CIP are prioritized and the means for financing are identified. If current resources are insufficient to meet the needs identified, the City may consider incurring debt to fund the shortfall.
- Consider market factors when setting a sale date.
- Generally amortize debt within twenty years from issuance. Determine the amortization (maturity) schedule which will best fit with the overall debt structure of the City's general obligation debt, repayment source and/or related tax levy at the time the new debt is issued. For issuance of revenue bonds, or general obligation bonds paid by revenues other than property tax, 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 practical, 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. Assess financial alternatives to include new and innovative financing approaches, including, whenever feasible, categorical grants, revolving loans, or other state/federal aid.

- Utilize the method of sale that will minimize interest expense and issuance 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 City 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 change this limit, the City policy will be adjusted accordingly.
- Include a call provision of approximately ten years or less to provide the City flexibility to refinance debt in the future. The call feature will be determined at the time of sale based on market conditions and investor acceptance.
- Issue fixed rate debt as opposed to variable rate debt to minimize exposure to certain risks. If unusual circumstances warrant the issuance of variable rate debt, explanation must be provided and approved by the City Council. The par amount of outstanding variable rate debt shall not exceed 10% of the City's outstanding debt. The City will not use derivative products in its debt structure.

IV. <u>LEGAL CONSTRAINTS AND OTHER DEBT LIMITATIONS</u>

The City 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 procedures set forth pursuant to this Policy.

Authority and Purposes of the Issuance of Debt

The laws of the State of Illinois authorize the issuance of debt by the City. The Illinois Municipal Code confers upon municipalities the power and authority to contract debt, borrow money, and issue bonds. The City 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.

The Wheaton City Code (Section 2-566) authorizes the City Council to incur debt by issuing general obligation bonds for any lawful municipal purpose as authorized by the State Constitution or its Home Rule Powers.

State Laws

30 ILCS 305/0.01, et. seq.: the short title is "The Bond Authorization Act."
30 ILCS 350/0.01, et. seq.: the short title is "The Local Government Debt Reform Act."

General Obligation Debt Limitation

Under Illinois Compiled Statutes, Municipalities of less than 500,000, unless they are a home rule unit, are limited to the amount of general obligation bonded debt they can incur at any one time to no more than 8.625% of the total equalized assessed value of real estate property. Since the City is a home rule community, the City is not subject to this limitation. However, the City shall impose a debt limitation equal to 5% of its equalized assessed value. All outstanding revenue bonds and general obligation debt that is fully supported and payable from an enterprise fund shall be excluded from the City's debt limit calculation.

Credit Implications

When considering new debt, the City should not exceed credit industry benchmarks consistent with the City's credit rating objective, where applicable. Therefore, the following factors should be considered in developing debt issuance plans:

- Ratio of Net Direct Debt to Estimated Full Value. The formula for this computation is the total outstanding net direct general obligation bonded debt (excluding debt self-supported by an enterprise fund) divided by the current estimated full value as determined by the Township Assessors.
- Ratio of Governmental Fund Debt Service to Governmental Fund Expenditures. The formula for this computation is annual general obligation bonded debt service expenditures for governmental debt divided by Governmental Fund (i.e., General, Special, and Debt Service Funds) expenditures excluding interfund transfers and capital outlay.
- Ratio of Net Direct Debt to Governmental Fund Revenues. The formula for this computation is total outstanding net direct general obligation bonded debt (excluding debt self-supported by an enterprise fund) divided by Governmental Fund revenues excluding one-time revenues.

- <u>Rapidity of Debt Service Repayment.</u> The City will typically use level or declining debt repayment schedules, avoiding back-loaded or balloon repayment schedules. The City's general obligation bond issues (excluding debt payable from enterprise funds) should be so structured whereby 100% of the debt will be retired within twenty years. An amortization longer than twenty years would be acceptable for general obligation or revenue bonds payable 100% from enterprise funds. It is also desirable to structure the City's general obligation bond issues (excluding enterprise fund supported debt) so that at least 50% of the principal will be retired within 10 years.

V. DEBT ISSUANCE

Use of Professional Service Providers

The City will seek the assistance and expertise of a qualified Financial Advisor and Bond Counsel when considering debt issuance.

Types of Debt Issued

- <u>Short-Term</u>. (three years or less) The City 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 City will not issue debt for deficit financing.
- <u>Long-Term</u>. (more than three years) The City may issue long-term debt which may include, but is not limited to, general obligation bonds, certificates of participation, installment notes, revenue bonds, and special assessment bonds. The City may also enter into long-term leases for public facilities, property, and equipment with a useful life greater than one year.

General Obligation Bonds vs. Revenue Bonds

The City may consider the issuance of revenue bonds in lieu of general obligation bonds if:

- There are sufficient annual revenues for the repayment of the proposed bonds - debt service coverage (annual revenue minus cash operating expenses divided by annual debt service payments). The debt service coverage ratio will be used to determine the limit of future revenue bonds payable from the identified revenue source;
- The project being financed benefits the users of an enterprise system and debt service on the bonds would be paid from enterprise fund revenues;
- There is not a significant cost differential between the two financing types; and/or
- An amortization longer than twenty years is more advantageous for repayment from enterprise fund revenues.

If the City plans to repay debt service using a specific revenue source, the City will use conservative revenue projection assumptions. When issuing general obligation bonds in lieu of revenue bonds, the City Council will adopt ordinances abating the debt service levies and direct staff to pay debt service costs with the identified revenues.

All revenue bonds and general obligation bonds payable from enterprise fund revenues will be excluded from the City's debt limitation.

Federal and State Loan Programs

The City may consider Federal and State financing vehicles in lieu of general obligation bonds if there is:

- A lower interest rate.
- Greater flexibility (for example, "drawing" funds only as needed).
- Ability to pledge a particular revenue to the debt as opposed to the City's "full faith and credit" as in a general obligation bond.

Structure of Debt Issues

The duration of a debt issue shall not exceed (i) for the issuance of bonds that finance capital improvements, the economic or useful life of the improvement or asset that the issue is financing or (ii) for the issuance of bonds that fund pension liabilities, the amortization of the City's existing pension plans' unfunded liabilities. The City 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. All bonds will mature within the period or average period of usefulness of the assets financed or within the same term of the City's existing pension plans' unfunded liabilities. Bonds will mature in installments over a twenty year amortization, unless otherwise approved by City Council.

Methods of Sale

All debt issued will be offered through a competitive bidding process, unless the City Council deems a negotiated sale or private placement is more advantageous to the City. Under these conditions, the City's Financial Advisor will provide the justification for why the competitive bidding process is not deemed suitable for the particular issuance of debt. For a negotiated sale, the City shall conduct a request for proposals to select the underwriter. For a private placement, the City may engage a placement agent to identify likely investors.

Financial Advisor: As a matter of independence, and securities law, the Financial Advisor will not bid on nor underwrite any City debt issues on which it is advising.

Credit Enhancements

The City 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 City 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 City Council.

Conduit Debt

Conduit debt is debt issued in the name of the City but payable by third parties only, and for which the City does not provide credit or security. The City will consider issuing conduit debt when such actions meet the financial objectives of plans and/or policies adopted by City Council.

VI. DEBT ADMINISTRATION

Financial Disclosures

The City shall prepare appropriate disclosures as required by the City's continuing disclosure undertakings, the Securities and Exchange Commission, the federal government, the State of Illinois, rating agencies, underwriters, investors, taxpayers, and other appropriate entities and persons to ensure compliance with applicable laws and regulations.

Review of Financing Proposals

All financing proposals that involve a pledge of the City's credit through the sale of securities, execution of loans or lease agreements and/or otherwise directly involve the lending or pledging of the City'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 City Manager and City Council for approval.

Establishing Financing Priorities

The Director of Finance/Treasurer shall administer and coordinate the City'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 City's Financial Advisor shall meet, as appropriate, with the City Manager and the City Council regarding the status of the current year's program and to make specific recommendations.

Rating Agency Relations
The City shall endeavor to maintain effective relations with the rating agencies. The City Manager, Director of Finance/Treasurer, and the City'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 City's capital plans, debt issuance program, and other appropriate financial information.

Refunding Policy
The City shall consider refunding outstanding debt when legally permissible and financially advantageous. A net present value debt service savings of at least three percent of the refunded par amount or greater must be achieved, unless otherwise justified and authorized by City Council.

Investment of Borrowed Proceeds
The City shall invest proceeds of debt in accordance with the City' adopted investment policy. The City 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 City. The management of public funds should enable the City 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.

VII. GLOSSARY OF TERMS

These terms are included as some are used in the debt management policy and others are typically used in the discussions of debt financing.

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

Advanced Refunding Bonds - Bonds issued to refund an outstanding bond issue more than 90 days 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 City to render a legal opinion whether the City 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.

> Direct Debt or Gross Bonded Debt - The sum of the total bonded debt and any unfunded debt of the issuer.
>
> Net Direct Debt or Net Bonded Debt - Direct debt less sinking fund accumulations and all self-supporting debt.
>
> Total Overall Debt - Net direct debt plus the issuer's applicable share of the direct debt of all overlapping jurisdictions.

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

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

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, charter provision, or policy provisions.

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.

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.

Financial (Municipal) Advisor – A finance professional retained by the City to perform the following duties including, but not limited to: comprehensive analyses for debt refinancing; recommendations for alternative financial structures; development of timing and sale of new issues; coordinating the market timing and pricing of debt securities; issuing and disseminating the bond offering documents and other disclosure requirements; coordinating with the underwriters of the bond issuance; seeking and coordinating ratings from the nationally recognized rating agencies; and, providing guidance and advice about debt-related topics and the capital markets.

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.

Methods of Sale

Competitive Sale – Method of sale where bonds are awarded in an auction-style sale to an underwriter or syndicate of underwriters that provides the lowest true interest cost (TIC) bid. Competitive sales offer all interested underwriters an opportunity to compete for the reoffering of the City's bonds.

Negotiated Sale – Method of sale where a single underwriter or underwriting syndicate is chosen, typically through a request for proposal process, to purchase the bonds. Negotiated sales are more advantageous when there needs to be some flexibility in the sale date and market volatility is a concern. Negotiated sales are also often used when the issue is particularly large, if the sale of debt issuance would be perceived to be more successful with pre-marketing efforts when a desired debt structure is a necessity and when market timing is a consideration.

Private Placement – Method of sale where the bonds are sold directly to a financial institution (typically by a competitive bid process), which holds the bonds as an investment until maturity. A private placement offers lower costs because there are no fees for underwriting services, official statements, and the possibility of no credit rating fees.

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

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").

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 City 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.

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.

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 City 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.

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.

Underwriter - Broker dealer that purchase debt securities, such as general obligation bonds, from a municipality and resells them to investors.

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.