City of Westerville

Capital Financing & Debt Policy

Introduction:

The capital financing and debt policy provides comprehensive guidance for future decisions regarding financing of capital projects including the appropriate use of debt. The City's legacy of financial stability is built upon a conservative approach to spending as well as a long-term commitment to full and timely repayment of debt.

For a debt management policy to be an effective tool, the provisions of the policy must be compatible with the City's goals pertaining to the capital improvement program, the 5 year financial plan, and the operating needs of the City. Multi-year forecasts of debt service requirements have been included in these plans.

The debt management policy should also afford an appropriate balance between limits on the debt program and flexibility to respond to unforeseen circumstances and opportunities.

Guiding Principles:

The following policies and principles are intended to govern the issuance of all City debt

- Debt financing should be considered for capital improvement programs as approved in the annual capital improvement program budget, after all non-debt sources of funds (e.g. cash, grants, loans, etc.) have been considered.
- Cash financing from Available Sources: The City has historically paid for a large portion of its capital budget on a cash basis. It expects to continue this practice and use cash to pay for capital expenditures that it expects to recur on an annual basis (such as Annual Street Rehabilitation Program) or when reserves are available that are not expected to be needed for other purposes in the foreseeable future.
- The City should actively seek sources of financing (either grants or low interest state sponsored loans) as an alternative to entering the capital markets.
- Debt financing should not be used for enterprise activities without a designated revenue source for retiring principal and interest. The City should identify a specific source of revenue for the repayment of each debt issuance and calculate the expected impact on rates and user fees prior to the issuance of the debt.
- Generally, revenue debt should be utilized to finance utility related projects to minimize impact on statutory debt limits, except in cases where it is determined that utilizing less expensive General Obligation debt will not have a materially adverse impact on overall debt limits.
- Prior to debt issuance considerations, "pay-as-you-go" financing should be considered for all major projects, including capital improvements projects, to keep debt at a manageable level.
- Debt should be structured that the principal will be retired over the useful life of the project financed. The City should not issue debt for a period longer than the period during which it intends to use the capital improvement being financed.

- Debt service schedules should reflect a level debt service approach except in those instances where, such as certain TIF funded projects, the short term deferral of principal is warranted given the timing of development and therefore service payments necessary to retired the debt. "Short term" for the purposes of this provision shall mean two years or less unless otherwise directed by Council.
- Outstanding debt should be reexamined periodically to determine whether an economical advantage exists for refinancing the outstanding debt given changes in the interest rate and bond market. City management shall annually convene a comprehensive review of its overall debt profile in conjunction with its Financial Advisor and Bond Counsel to monitor debt levels relative to statutory and policy limits. The results of said review shall be communicated to the Finance Audit Committee and Council as a whole.
- Additionally, debt policies should be monitored annually as a part of the annual Capital Improvement Plan and Five Year Plan (operating budget) process for changing circumstances or revisions.
- The City will maintain good communications with bond rating agencies about its financial condition with an intent to retain its Aaa bond rating.

Capital Improvements Supported by Income Tax:

The City expects to reserve between 20% and 25% of annual income tax revenue to pay for capital improvements and to pay debt service on infrastructure projects. The City will determine the exact percentage to be set-aside to support its capital program on an annual basis. In any event, it will limit the amount of income tax committed to pay debt service on bonds and notes of the City to no more than 40% of income tax collections set aside for capital improvements. The balance of the set- aside (60%) will be used to pay for projects on a cash basis.

Capital Improvements Supported by Property Tax:

Certain capital projects may lend themselves to financing through voter supported bond issues. Precedent for this can be found within the Fire Division where fire station construction was supported by a voter approved bond levy. One key benefit to this financing method is the fact that such debt is not counted against the 10 mill bond limit for "unvoted" debt. This financing approach may be used for other general government purposes and may be a desirable option for certain projects if debt capacity limits are constraining.

Economic Development:

The City should continue to avoid assuming "development risk" and implement specific guarantees from developers (letters of credit, minimum TIF payments, etc). The policy should establish defined limits which generally reflect public policy or other financial resource constraints. Appropriate debt limits can positively impact bond ratings, if the government demonstrates adherence to such policies over time.

Capital Opportunities Reserve (CORe):

The Capital Opportunities Reserve (i.e. "CORe" fund) is established as a reservation of General Capital Improvement Fund (GCIF) dollars which have been transferred periodically from the General Fund for the benefit of significant, one-time capital improvement projects.

Qualifying projects for utilization of CORe funds are those selected and authorized by City Council that generally meet the following criteria:

- The project involves a major, unfunded and long-term capital need that addresses a significant, on-going and mission-critical operational concern (i.e. new Police/Court facility).
- The project involves an emergent, unforeseen and compelling opportunity for the community for which no capital project funding could have been contemplated (i.e. land purchase).
- The project involves a key strategic economic development interest that over time will yield continuing positive financial benefits to the City that will exceed project costs (i.e. infrastructure development for prime development).

CORe funds are not to be used to simply expand routine, customary or otherwise normally planned capital improvements such as street rehabilitation/reconstruction, building improvements, or routine parks and recreation projects.

The calculation utilized in determining the dollars to be transferred and reserved during the first three years is as follows:

Actual Unencumbered Balance of General Fund December 31 (minus)
Estimated Unencumbered Balance of General Fund as of Five-Year Financial Plan

Difference Equals Unenc. Cash in Excess of Estimate at Five-Year Financial Plan

Multiplied by 75% to Determine Transfer to Capital Opportunities Reserve (CORe)

Conclusion:

Adherence to a debt management policy signals to rating agencies and the capital markets that a government is well managed and should meet its obligations in a timely manner. Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. An effective debt management policy will provide guidelines for the City to manage its debt program in line with available resources.