Meeting Location
City of DeKalb Police Department
Training Room, 2nd Floor
700 West Lincoln Highway
DeKalb, Illinois 60115

AGENDA

Finance Advisory Committee

May 15, 2018
5:00 p.m.

1. Call to Order
2. Roll Call for Attendance
3. Public Participation
4. Approval of Minutes
   a. Minutes of the Finance Advisory Committee Meeting of April 24, 2018
5. Financial Policy Review and Recommendation
6. Confirm Next Meeting Date and Time
   a. Tuesday, June 26, 2018 at 5:00 p.m. at the Police Department Training Room, 2nd Floor
7. Adjournment

This meeting will be video recorded

The Finance Advisory Committee's role (as listed in Chapter 54-11) is to provide well-reasoned, financially sound recommendations to the Council. Meetings and reporting shall be on a project-by-project basis or as otherwise assigned by the City Council. The Finance Advisory Committee shall work in cooperation with the City Council and the City Manager to analyze the City's financial policies, long term financial stability, options for greater efficiencies and possible revenue and expenditure modifications.

MINUTES
CITY OF DEKALB
FINANCE ADVISORY COMMITTEE MEETING
APRIL 24, 2018

1. CALL TO ORDER

The Finance Advisory Committee held a meeting on April 24, 2018, in the Police Training Room, at the DeKalb Police Department, 700 W. Lincoln Highway, DeKalb, Illinois.

The meeting was called to order at 5:01 p.m. by Chair Peddle.

2. ROLL CALL

Account Technician Carri Parker called roll, and the following members of the Finance Advisory Committee were present: Tom Teresinski, Lynn Neeley, Steve Parker, Ron Partch and Chair Mike Peddle.

Also present were: Finance Director Molly Talkington, Assistant Finance Director Robert Miller, Account Technician III Carri Parker and Customer Service Representative Amy Frantz.

3. PUBLIC PARTICIPATION

Chair Peddle asked if there was anyone from the public present who wished to speak.

No one from the public was present.

4. APPROVAL OF MINUTES

a. Minutes of the Finance Advisory Committee of March 27, 2018

MOTION

Committee Member Neeley motioned to approve the minutes of March 27, 2018; seconded by Committee Member Parker.

VOTE

Motion carried on a 5-0-1 voice vote. Aye: Teresinski, Neeley, Parker, Partch and Peddle. Not Present: Conlin.

5. FINANCIAL POLICY REVIEW AND RECOMMENDATION

Budget Policy

Chair Peddle explained the two changes in the Budget Policy.

Committee Member Teresinski questioned the statement “ability to pay” in the first paragraph of the policy. He stated that it is based on a balanced budget. He is questioning if the verbiage should be changed.

The Committee and staff discussed the “ability to pay” statement within the policy.

Committee Member Teresinski asked about the action items needed for item #4 of the Budget Policy. He stated that there are not any actions listed within the policy.

Committee Member Parker asked about the monthly financial reports.

Finance Director Talkington stated that there are reports available on monthly basis for review.

Chair Peddle stated that he is concerned with Item #4. He stated staff should add the following:

> *Variances from annual budgeted amounts should be reconciled and remediated as soon as possible and no less frequently than on a quarterly basis.*

A discussion ensued between the Committee and staff on the appropriate wording needed in the policy and items being looked at that are variances from the current budget.

MOTION

Committee Member Teresinski motioned to approve the addition to the Budget Policy as stated above; seconded by Committee Member Partch.

VOTE

Motion carried on a 5-0-1 roll call vote. Aye: Teresinski, Neeley, Parker, Partch and Peddle. Nay: none. Absent: Conlin.

MOTION

Committee Member Teresinski motioned to approve the Budget Policy with said changes; seconded by Committee Member Partch.

VOTE

Motion carried on a 5-0-1 roll call vote. Aye: Teresinski, Neeley, Parker, Partch and Peddle. Nay: none. Absent: Conlin.

Fund Balance Policy

Chair Peddle explained the Fund Balance Policy and how the pension obligation is recognized as an expenditure. He added that the Fund Balance would need to remove the pension expenditure. Chair Peddle stated that just under $500,000 is coming from the General Fund to fund the pension obligation. He added that staff wanted to keep the fund balance the same, if the new method of calculating would require a fund balance of 30%.

Finance Director Talkington stated that property taxes have remained steady. She added that by increasing the fund balance from 25% to 30%, the amount will remain the same as the amount is calculated differently for the pensions. She added that the City will need to find additional revenue to pay for services.

Committee Member Teresinski explained the history of the policy development. He questioned which communities are using this type of calculation.

The Committee and staff discussed the calculations and the purpose of the policy change.

Committee Member Parker agrees that the change makes sense.

Committee Member Partch agreed that the policy change is good.

Committee Member Neeley stated that she agrees with the change suggested.

The Committee discussed the revenue collections and pension obligations on the department level.

The Committee went through the remaining changes.

Chair Peddle introduced the Revenue and Expenditure Policy. He added that there are minimal changes made.

The Committee discussed the verbiage under item 1a relative to property taxes to edit the verbiage to *may*.

MOTION

Committee Member Partch motioned to approve the changes to the Revenue and Expenditure Policy presented; seconded by Committee Member Parker.

VOTE

Motion carried on a 5-0-1 roll call vote. Aye: Teresinski, Neeley, Parker, Partch and Peddle. Nay: none. Absent: Conlin.

MOTION

Committee Member Teresinski motioned to approve the Revenue and Expenditure Policy with said changes; seconded by Committee Member Neeley.

VOTE

Motion carried on a 5-0-1 roll call vote. Aye: Teresinski, Neeley, Parker, Partch and Peddle. Nay: none. Absent: Conlin.

6. CONFIRM NEXT MEETING DATE AND TIME

Chair Peddle confirmed the next Finance Advisory Committee meeting on Tuesday, May 15, 2018 at 5:00 p.m. at the Police Department Training Room, 2nd Floor.

Committee Member Teresinski asked about the Five-Year Financial Plan.

Finance Director Talkington stated that the Management Interns are working on the information. She stated that the plan should be available at the June meeting.

Committee Member Parker commented that Casey's sales tax should be good, and we should see a bump in the sales tax from Carson's.

Finance Director Talkington stated that will be discussed at the meeting when the quarterly reports are discussed.

Chair Peddle asked if Bessie Chronopolous had any comments. She stated that it was difficult to understand and that she praised the Committee on a great job that they are doing.

7. ADJOURNMENT

Chair Peddle asked for a motion to adjourn.

MOTION

Committee Member Parker motioned to adjourn the meeting; seconded by Committee Member Neeley.

VOTE

Motion carried by a 5-0-1 voice vote. Aye: Neeley, Teresinski, Parker, Partch, Peddle. Nay: none. Absent: Conlin.

The Finance Advisory Committee adjourned at 6:15 p.m.

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CARRI PARKER, Account Technician III

Budget Policy

Policy Number: 01-01 **Date:** December 11, 2017

Purpose: The City Manager shall submit an annual budget to the City Council which is within the City's ability to pay. The annual budget should provide for the following:

1. A meeting will be held with the Finance Advisory Committee after June 30 and before joint City Council budget discussions begin to discuss the previous year-end Comprehensive Annual Financial Report, review revenues trends and discuss any new policy recommendations.

2. Management shall prepare a draft of the annual budget for review by the City Council and the Finance Advisory Committee in October/November of each year. The recommended budget should be submitted to the City Council for review and a public hearing in November of each year. The final budget document shall be submitted to the full membership for approval prior to December 31 of each year.

3. The annual budget should effectively communicate meaningful and understandable information to the City residents, City Council, City Staff, and other readers.

4. The annual budget shall be monitored on a monthly basis. Revenue and expenditure budget reports shall be prepared and made available to City management staff for departmental review on a monthly basis. A quarterly budget summary report (Treasurer's Report) shall be presented to the City Council.

~~4.~~5. Variances from annual budgeted amounts should be reconciled and remediated as soon as possible and no less frequently than on a quarterly basis.

~~5.~~6. The annual budget should allow for the implementation of as many of the City Council's goals and objectives from the 2025 strategic plan as financially possible.

~~6.~~7. The annual budget should provide for the adequate funding of all pension plans (IMRF, Police Pension Fund, and Firefighters Pension Fund). An independent actuary should be used to determine the annual City contributions to the Police Pension Fund and the Firefighters Pension Fund and determine if these pension funds are adequately funded.

~~7.~~8. The annual budget should provide funding for the adequate maintenance of municipal equipment, municipal facilities, and infrastructure.

~~8.~~9. The annual budget should set aside-adequate funding (pay-as-you-go funding) for the replacement of major equipment. Annual funding (depreciation funding) for these replacements will eliminate major expenditure jumps in the annual budget when these acquisitions are made.

~~9.~~10. During the budget process, the City will assess the need for contingency funds to be included in the budget to fund unanticipated expenditures that might arise.

~~10.~~11. The annual budget should finance current operating expenditures, excluding major capital expenditures, with current revenues. The use of reserve funds to finance current operating expenditures should be carefully considered and avoided if possible.

~~11.~~12. The City should limit the use of the reserve fund to nonrecurring operating expenditures or capital expenditures, specifically if our anticipated fund balance is below our Fund Balance Reserve Policy of 30~~25~~% of expenditures less property tax revenue.

~~12.~~13. When the City is required to undertake a budget amendment and/or execute expenditure transfers to ensure that actual expenditures are within approved budgetary limits as authorized by City Council the following procedures will be followed. Administration of these procedures will be the responsibility of the City's Finance Director and the Finance Director will sign off that these procedures have been adhered to for any budget amendments and/or expenditure transfers undertaken by the City. Those procedures are as follows:

a. Upon knowledge that a budget amendment and/or expenditure transfer will be required, the City's Finance Director will inform both the Finance Advisory Committee and the City Council.

b. Documents will be drafted by the Finance Director with the reason for the required budget amendment and/or expenditure transfer, including the specific accounts affected and the dollar amounts of said amendments and/or expenditure transfers.

c. Formal City Council review and approval of proposed budget amendments and/or expenditure transfers will be required before any amendments and/or transfers are executed by the Finance Director.

Revenue and Expenditure Policy

Policy Number: 01-04 **Date:** December 11, 2017

Purpose: **Revenues**

The City desires to maintain a diversified and stable revenue base to reduce the impacts of fluctuations in any one revenue source. The revenue mix combines elastic and inelastic revenue sources to minimize the effects of an economic downturn. The City also incorporates the following principles related to revenues as it furthers its financial planning and fulfills its fiscal responsibilities:

1. The City prefers to keep its property tax rate as low as possible. The following components shall be followed in priority order each year when establishing the property tax levy:

   a. Levy for Police, Fire and Illinois Municipal Retirement Fund (IMRF) pensions per actuary calculations. If the actuarial reports indicated a higher employer contribution is needed, said increase ~~will~~ may need to be added to the City's overall previous year levy request to avoid underfunding problems.

   b. Levy for Federal Insurance Contributions Act (FICA).

   c. Levy for general obligation bond principal and interest less abatements.

   d. Levy to support General Fund operations including Police, Fire, Public Works, Community Development, Finance, Human Resources, Information~~.~~ Technolgy~~.~~, and Administration. The annual increase for this component should not exceed the rate of inflation.

   e. Levy to fund additional personnel as determined by the City Council.

2. User charges and tap-on fees will be sufficient to finance all operating and debt service costs for the Water Fund.

3. The City Manager should impose spending limits if, in his/her judgment, revenues will be below original estimates. Staff should review and monitor on a monthly basis, expenditures to assure control of spending within available revenues.

4. Ongoing transfers will be made from the General Fund to the Capital Equipment ~~Fleet~~ Replacement ~~f~~Fund on an annual basis to help plan for the purchasing of large capital equipment needs.

Expenditures

The City will strive to adhere to the following policies:

1. The City will consistently budget the minimum level of expenditures which will provide for the public well-being and safety of the residents and businesses of the community.

2. Expenditures will be within the confines of generated revenue. Fund balances will not be used to pay for operating expenditures except in the case of emergencies and after careful consideration.

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DATE: May 9, 2018

TO: Mike Peddle, Chair
Finance Advisory Committee

FROM: Patty Hoppenstedt, Interim City Manager
Molly Talkington, Finance Director

SUBJECT: Financial Policies Review – Debt Management Policy (01-07)

I. Summary:

The City Council adopts financial policies that establish the framework for the services provided by the City of DeKalb. Currently, there are a total of eight adopted policies. Annually, the policies are reviewed and adopted as part of the budget. As part of the Fiscal Year (FY) 2019 budget process, the Finance Advisory Committee (FAC) has been tasked to conduct a review of all the policies and, if needed, recommend revisions to them for City Council consideration. The FY 2019 schedule has outlined four meetings for review of the policies starting with the February meeting and ending with this meeting in May. The policy for review at this meeting is the Debt Management Policy (01-07).

II. Background:

Prior FAC Action

- On January 30, 2018, FAC reviewed the Fiscal Year (FY) 2019 Budget Schedule, Five-Year Financial Plan draft, approved a Committee Operations Policy.

- On February 27, 2018, FAC reviewed City Council's Goals, recommended revisions to the Five-Year Financial Plan, and recommended revisions to these policies:

    - Capital Equipment Replacement Fund (01-03),
    - Accounting, Auditing, and Financial Reporting Policy (01-05), and
    - Capital Asset Policy (01-06).

- On March 27, 2018, FAC reviewed Police and Fire Pension funding illustrations and recommended revisions to the Investment Policy (01-08).

- On April 24, 2018, FAC reviewed City Council's Goals, recommended revisions to the Five-Year Financial Plan, and recommended revisions to these policies:
    - Budget Policy (01-01),
    - Fund Balance Policy (01-02), and
    - Revenue and Expenditure Policy (01-04).

The FY 2018 budget was the most recent year of the annual review and adoption of the Debt Management Policy (01-07) as part of the annual budget adoption. This policy was established to help ensure the City's credit worthiness and to provide a functional tool for debt management and capital planning. The revisions to this policy are twofold and shown on Attachment A. First, the policy was revised to reflect the Fund Balance Policy (01-02) revision to the General Fund unassigned fund balance calculation as discussed at the FAC's April 24, 2018 meeting. Second, the other revisions include several instances of formatting and grammar changes such as spelling out acronyms, comma use, and deletion of repetitive language. The Finance Director's revisions do not materially change the intent of these policies. The revisions provide clarification to the end user and consistency between the financial policies.

III. Recommendation:

Staff is recommending the FAC review the existing policy, review the Finance Director's revisions, and discuss and recommend any other revisions the Committee would like to see to the Debt Management Policy.

Attachment:

A) Debt Management Policy (01-07) Track Changes

Debt Management Policy

Policy Number: 01-07 **Date:** December 11, 2017

Purpose: The City of DeKalb developed this Debt Management Policy to help ensure the City's credit worthiness and to provide a functional tool for debt management and capital planning.

The City of DeKalb faces continuing capital infrastructure requirements to meet the increasing needs of its citizens. The City limits long-term debt to only those capital improvements that cannot be financed from current revenues. The City of DeKalb will not use long-term debt to fund operating programs.

The costs of the capital requirements will be met through the issuance of various types of debt instruments. Consequently, the City needs to anticipate increases in debt levels based upon historical data. With these increases, the effects of decisions regarding the type of issue, method of sale, and payment structure become ever more critical to the City's financial well-being. To help ensure the City's credit worthiness, an established program of managing the City's debt becomes essential.

To this end, the City Council recognizes this "Debt Management Policy" to be financially prudent and in the City's best economic interest. This policy will provide a functional tool for debt management and capital planning and enhance the City's reputation for managing its debt in a conservative and prudent manner.

Goals Related to the Issuance of General Obligation and Revenue Bond Debt:

The City shall pursue the following goals below when issuing debt. Though the City may not have achieved all these goals as of yet, these are long term objectives for which we must continue to strive toward.

1. Maintain at least an Aa3 (Moody's) or equivalent credit rating for each general obligation debt issue.

2. Take all practical precautions to avoid any financial decision which will negatively impact current credit ratings on existing or future debt issues.

3. The City should attain a General Fund unassigned balance equal to a minimum of ~~twenty five~~thirty percent (30~~25~~%) of total annual expenditures less property tax revenue.

4. Consider market timing.

5. Determine the amortization (maturity) schedule which will best fit with the overall debt structure of the City's general obligation debt and related tax levy at the time the new debt is issued. The City may choose to delay principal payments or capitalized interest during project construction. For issuance of revenue bonds, the amortization schedule which will best fit with the overall debt structure of the 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 practicable, 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.

6. Consider the impact of such new debt on overlapping debt and the financing plans of local governments which overlap or underlie the City.

7. Assess financial alternatives to include new and innovative financing approaches, including whenever feasible, categorical grants, revolving loans or other state/federal aid.

8. Minimize debt interest costs.

Debt Issuance in General:

1. Authority and Purposes of the Issuance of Debt

   The laws of the State of Illinois authorize the issuance of debt by the City. The Local Bond Law confers upon municipalities the power and authority to contract debt, borrow money, and issue bonds for public improvement projects as defined therein. Under these provisions, the City may contract debt to pay for the cost of acquiring, constructing, reconstructing, improving, extending, enlarging, and equipping such projects or to refund bonds. The City Charter authorizes the City Council to incur debt by issuing bonds for any lawful municipal purpose as authorized by the State Constitution or its Home Rule Powers.

2. Short-Term Debt (three years or less)

   The City may issue short-term debt to finance projects or portions of projects for which the City ultimately intends to issue long-term debt. This will be used to provide interim financing which will eventually be refunded with proceeds of long-term obligations, which may include, but not be limited to, bond anticipation notes or variable rate demand notes. The City will have an estimated timeframe when any short-term debt issue will eventually be converted into long-term debt.

   a. Line of Credit

      The City may also issue debt instruments to meet cash flow requirements. With the approval of the City Council, the City may establish a tax-exempt line of credit with a financial institution selected through a competitive process. This line should have a limit of $2,500,000. Draws should be made on the line of credit when ~~the need for~~ financing is needed to meet ***operating*** expenditures on a temporary basis. Draws made on the line of credit must be requested by the Finance Director and approved by the City Manager and the City Council.

3. Long-Term Debt (more than three years)

The City may issue long-term debt which may include, but not limited to, general obligation bonds, certificates of participation, capital appreciation bonds, special assessment bonds, self-liquidating bonds and double-barreled bonds.

Level or declining debt service should 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 raise this limit, then the City policy will be adjusted accordingly.

The cost of issuance of private activity bonds is usually higher than for governmental purpose bonds. Consequently, private activity bonds will be issued only when they will economically benefit the City.

The cost of taxable debt is higher than for tax-exempt debt. However, the issuance of taxable debt is mandated in some circumstances and may allow valuable flexibility in subsequent contracts with users or managers of the improvement constructed with the bond proceeds. In addition, there may be circumstances in which the issuance of taxable debt may be more cost effective than the issuance of tax-exempt debt. Therefore, the City will usually issue obligations tax exempt, but may occasionally issue taxable obligations.

a. Capital Leasing

The City may also enter into long-term leases for public facilities, property, and equipment with a useful life greater than one year that costs less than $500,000. The City should be limited to issuing a capital lease of no more than $1,000,000 in a fiscal year.

Whenever a lease is arranged with a private sector entity, a tax-exempt rate should be sought. Whenever a lease is arranged with a government or other tax-exempt entity, the City should strive to obtain an explicitly defined taxable rate so that the lease will not be counted in the City's total annual borrowing subject to arbitrage rebate.

The lease agreement should permit the City to refinance the lease at no more than reasonable cost should the City decide to do so. A lease which can be called at will is preferable to one which can merely be accelerated.

4. Capital Improvement Program

   The Capital Improvement Program (CIP), approved by the City Council as part of the annual budget, should determine the City's capital needs. The program should be a five-year plan for the acquisition, development and/or improvement of the City's infrastructure. Projects included in the CIP should be prioritized; and the means for financing each should be identified. If the current resources are insufficient to meet the needs identified in the CIP, the City Council may consider incurring debt to fund the shortfall. The City Council may also consider incurring debt to fund multiple years of the Capital Improvement Program. The CIP should be revised and supplemented each year to maintain and test compliance with the City's Debt Management Policy Financial Policy #01-07.

5. Structure of Debt Issues

   The duration of a debt issue should not remain outstanding beyond the asset's useful life. Each new bond issue should be structured to be callable in 10 years. The City should 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~~use and moderate the impact to the taxpayer. In keeping with the stated goals of this debt management policy, the City should structure each general obligation issue (except refunding and mini-bond issues) to comply with the rapidity of debt repayment provisions in Section III. E-4 following.

6. Credit Enhancements

   Credit enhancements are mechanisms which guarantee principal and interest payments. Typically, they include bond insurance and/or a line or letter of credit. Usually this will bring a lower interest rate and a higher rating from the rating agencies, thus lowering costs.

   The City may enter into agreements with commercial banks or other financial entities for the purpose of acquiring credit enhancements when their use is judged cost effective or otherwise advantageous. Any such agreements shall be approved by the City Council.

7. Inclusion of Local Institutions

Whenever practical and in the best interest of promoting the City of DeKalb, local financial institutions are to be offered the opportunity to bid on debt instruments.

Legal Constraints and Other Limitations on the Issuance of Debt

1. State Law

   30 ILCS 305/0.01, et. seq.: the short title is "The Bond Authorization Act."

2. Authority for Debt

   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 with approval by the City Council.

3. Debt Limitation

   The City of DeKalb is a home rule community. As such, the debt limitations of the bond laws are not applicable because the General Assembly has set no limits for home rule municipalities.

4. Methods of Sale

   When feasible and economical, obligations should be issued by competitive rather than negotiated sale. A sale may be negotiated when the issue is predominantly a refunding issue or in other non-routine situations which require more flexibility than a competitive offer allows. Whenever the option exists to offer an issue either for competition or for negotiation, analysis of the options should be performed to aid in the decision-making process. When a sale is not competitively bid, the City will publicly present the reasons and select the underwriter or direct purchaser. If a Financial Advisor is hired to assist the City in bond issuance, the Financial Advisor will not underwrite any debt issues on which it is advising.

   The criteria used to select an underwriter in a competitive sale should be the true interest cost. In a negotiated sale, the underwriter may be selected with or without a request for proposals (RFP). The criteria used to select an underwriter in a negotiated sale should include the following:

   - Overall experience
   - Marketing philosophy
   - Capability
   - Previous experience as managing a co-managing partner
   - Financial statements
   - Public Finance team and resources
   - Underwriter’s discount

When cost/beneficial, the City may privately place its debt. Since no underwriter participates in a private placement, it may result in lower costs of issuance. Private placement is sometimes an option for small issues.

5. Credit Implications

   When issuing new debt, the City should strive not to exceed credit industry benchmarks where applicable. Therefore, the following factors should be considered in developing debt issuance plans:

   a. Ratio of Gross Bonded Debt to Full Market Value of Taxable Property

      The formula for this computation is Gross Bonded Debt, which is the total outstanding debt, divided by the current Full Market Value of Taxable Property as determined by the Township Assessors. The City should not exceed 2% of Gross Bonded Debt per Full Market Value of Taxable Property.

   b. Gross Bonded Debt Per Capita

      The formula for this computation is Gross Bonded Debt divided by the current population as determined by the most recent U.S. Census. The City should not exceed $1,200 for Gross Bonded Debt per capita.

   c. Ratio of Annual Debt Service to General Fund Expenditures

      The formula for this computation is annual debt service expenditures divided by General Fund expenditures (excluding certain interfund transfers). The City should not exceed 10% of General Fund expenditures for annual debt service.

   d. Rapidity of Debt Service Repayment

      The City's general obligation bond issues should be so structured whereby the duration of the debt should not exceed 120% of the life of the asset.

   e. Current Fund Balance General Fund Cash Reserve

      The City should maintain a General Fund unassigned balance equal to a minimum of ~~twenty five~~thirty percent (30~~25~~%) of total annual ~~appropriations~~expenditures less property tax revenue~~, exclusive of interfund transfers~~. Such calculation, including a projection to June 30th (of the current fiscal year), should be made on an annual basis by the Finance Director (or designee) during the budget process.

Debt Administration

1. Financial Disclosures

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

2. Review of Financing Proposals

   All capital 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 Finance Director who shall determine the financial feasibility, and the impact on existing debt of such proposal, and shall make recommendations accordingly to the City Manager.

3. Establishing Financing Priorities

   The Finance Director 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 Finance Director along with the City's bond consultants 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.

4. Credit Rating

   The City should endeavor to maintain and/or to improve its credit rating and staff will specifically discuss with the City Council any proposal which might cause that rating to be lowered.

   Before a general obligation bond is issued, the City will update its rating from at least one national rating agency. The City Manager, Finance Director, and the City's bond consultants should meet with a rating agency to disclose the City's capital plans, debt issuance program, and other appropriate financial information as required by the rating agency.

5. Refunding Policy

   The City should consider refunding outstanding debt when legally permissible and financially advantageous. When refunding for savings purposes, a net present value debt service savings of at least two percent or greater must be achieved. Depending on the time to maturity and the absolute level of interest rates of the refunding candidate this target may change. For longer maturities the target can be higher, for shorter maturities, lower. For higher interest rates the target may be higher, for lower rates it could be lower. There may be circumstances where the City may refund bonds for restructuring purposes that may not generate any savings.

6. Investment of Borrowed Proceeds

   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) optimize returns, (ii) insure liquidity, and (iii) minimize risk. The City will invest bond proceeds in accordance with the City's investment policy and federal arbitrage requirements.

Glossary of Terms:

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

Advanced Refunding Bonds - Bonds issued to refund an outstanding bond issue 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 (I.R.S.) 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 in incur under constitutional, statutory or charter provision.

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.

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 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.

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 should 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 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.

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.