

City of Leavenworth, Kansas
Debt Management Policy
Approved by City Commission
March 12, 2024

INTRODUCTION

The management of governmental debt requires good legal advice and a good understanding of the principles of public finance. A formal debt policy is crucial for effective financial management. A debt policy provides justification for the structure of the debt issuance, identifies goals, establishes a commitment to long-term financial planning, and improves the quality of decisions. Over-indebtedness limits a government's ability to issue additional debt, and excessively large payments strain future operating budgets and reduce financial flexibility.

PURPOSE

The purpose of the Debt Management Policy is to establish a framework in which the City Commission, City Manager, and all Departments work to effectively use available financing options to provide quality services to the citizens of Leavenworth, while maintaining financial integrity.

- The City will seek to achieve and maintain the highest possible bond rating.
- The City will follow a policy of full disclosure as required by legal and professional guidelines in its relations with rating agencies, the Government Finance Officers Association, the Securities and Exchange Commission, the National Federation of Municipal Analysts and the investment community.
- The City will have a specific set of debt issuance guidelines consistent with Federal, State, and local laws and practices. The debt guidelines will recognize how much debt the community can support including the debt of overlapping jurisdictions.

For the purpose of this document, debt is defined as long-term financing instruments, even those that future payments are only guaranteed by continuing annual appropriations through the budget process (including leases and lease-purchase agreements).

SCOPE

This policy will apply to all City debt.

POLICY & RESPONSIBILITIES

The primary responsibility for administering this policy rests with the Director of Finance, who shall be assisted by the City Manager, and the City Manager's designees.

The responsibilities of the Finance Director shall be:

- Address the need for debt financing through the annual Capital Improvement Plan process and other improvements/programs deemed necessary by the City Manager.
- Review compliance to this policy and applicable benchmark debt ratios.
- Review changes in Federal and State legislation that affect the City’s ability to issue debt and report such findings as appropriate.
- Review the provisions of ordinances authorizing the issuance of bonds.
- Review opportunities for refinancing current debt.
- Review at least annually the services provided by the City’s financial advisor, bond counsel, paying agents, and other debt financing services providers.
- In developing financing recommendations, the Director will consider:
 - Options for interim financing including short-term and inter-fund borrowing, where allowable
 - Effects of proposed actions on tax rates and user charges
 - Trends in bond market structures
 - Other factors deemed appropriate

USES OF DEBT FINANCING

The City of Leavenworth will not issue long-term debt for routine operations; including routine repairs and maintenance, small tools, or equipment. Long-term debt will be used only for capital projects or specialized equipment that cannot be financed from current revenue sources.

Projects included within the City’s five-year Capital Improvement Plan may be considered for long-term debt if the procurement using operating funds would require an unacceptable spike in revenue sources or reduction of reserves. Unplanned projects may be considered if they are the result of growth-related activities within the community that require unanticipated and unplanned infrastructure or capital improvements or in the event of emergency situations.

Debt will not be issued for longer than the useful life of the improvement or asset it is funding. There must be sufficient revenues to repay the debt, whether from future property taxes, user fees, project revenues, cost sharing revenues, or other specified sources.

STRUCTURE AND TERMS OF DEBT FINANCING

The City will only use level or declining debt repayment schedules with fixed rates; it will not use back-loaded or ballooning repayment schedules or variable-rate debt. The City will avoid the use of certificates of participation, or similar types of instruments for the acquisition of facilities or equipment, except in the case of those revenue backed issuances of the Leavenworth Public Utilities, which are enterprise funds and are not subject to the vote of the people.

Debt will be structured to match cash in-flows with cash out-flows, minimize the impact on future property tax levies, and maintain a relatively rapid repayment of principal.

Debt will be structured to achieve the lowest possible net interest cost to the City within the current market conditions, the urgency of the proposed capital project, and the nature and type of security provided.

Public funds, property, and resources will not be used directly or indirectly to influence the outcome of ballot questions. No financial advisor, bond counsel, underwriter, broker/dealer, or other entities involved or potentially involved with the outcome of the issuance of the debt shall provide contributions to influence the outcome of ballot questions.

The investment of debt proceeds for construction type projects will be in alignment with the City's investment policy.

The selection of consultants for the providing of professional services for any bond issue will be based upon qualifications, through a formal request for qualifications for proposals. Any Financial Advisor to the City also capable of providing underwriting services shall be prohibited from participating in the underwriting of any City debt for a period of two years after the last service provided as Financial Advisor.

The Financial Advisor and Bond Counsel shall be prohibited from engaging in such relationships or agreements without prior consent of the City Commission. The Financial Advisor and Bond Counsel shall certify in writing their compliance with this policy.

MAXIMUM AMOUNTS OF DEBT FINANCING

There are several key ratios that investors and financial analysts use to determine credit worthiness and the soundness of the City's financial position. The City has established a set of guidelines to be used when reviewing the debt ratios. These numbers are indicators of financial stability and are listed below.

Ratios for general government debt:

Statutory

- Net Direct Bonded Debt as a percentage of Assessed Value 30%
- Charter Ordinance 56 as a percentage of the previous year's tax levy* 28%

Internal Goals

- Net Direct Bonded Debt Per Capita \$1,000
- Net Direct Bonded Debt Per Capita as a percentage of Per Capita Income 5%

- Net overall debt per capita (overlapping debt) \$2,000
- Mill Rate Not to Exceed 10 Mills

Ratios for Revenue-Funded Debt:

- Debt Service Coverage 125%

*On December 22, 2015, the Commission passed Charter Ordinance 56, which became effective March 1, 2016. Charter Ordinance 56 states that the City’s bond issuance shall not exceed in any one year an amount equal to 28% of its previous year’s tax levied, as certified by the County Clerk, for general improvements.

The City of Leavenworth will integrate the Capital Improvement Plan and debt funding activities so that the City works to effectively maximize available financing options. Any capital financing proposal of a City department, agency, or utility involving the pledge or other extension of the City’s credit through sale of bonds, execution of loans or leases, or otherwise involving directly or indirectly the lending or pledging of the City’s credit, shall be referred to the Finance Director and City Manager for review before such pledge is considered by the City Commission.

BOND FUND

Generally, payment of general obligation bonds and special assessment bonds shall be made from the City’s Debt Service Fund. However, in situations in which general obligation bonds are to be paid from user fees or sales taxes, bond payments should be made from the fund that receives the revenue (i.e. enterprise funds). The Debt Service Fund balance will be managed to eliminate or minimize arbitrage rebate liability.

POST ISSUANCE MANAGEMENT

The City will establish procedures for ensuring compliance with tax-exempt financing rules and regulations.

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

The City is committed to full and complete primary and secondary financial disclosure and to cooperating fully with rating agencies, institutional and individual investors, City departments and

agencies, other levels of government, and the general public to share clear, comprehensible, and accurate financial information.

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

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

CREDIT RATINGS

The Finance Director shall be responsible for the determination of rating requests and maintaining relationships with agencies assigning ratings to City debt. Additionally, the Finance Director shall provide periodic updates on the City's general financial condition to include debt issuance. Full disclosure of operations and open lines of communication shall be provided to rating agencies used by the City. The staff of the Finance Department, with assistance from the City's Financial Advisor, shall prepare the necessary materials and presentations to the rating agencies.