Village Policy

DEBT MANAGEMENT POLICY

Effective Date: January 18, 2021	Board Approved: January 18, 2021

Debt Management Policy

Purpose and Goals

This Debt Management Policy sets forth comprehensive guidelines for the financing of capital projects and infrastructure. It is the objective of the policy for the Village to obtain financing only when necessary; to set forth the process to identify the timing and amount of debt be as efficient as possible; and that the most favorable interest and other costs be obtained.

In following this policy, the Village shall pursue the following goals when issuing debt:

1. Maintain at least an AA+ credit rating for each general obligation debt issue, and an AA credit rating for each revenue bond debt issue.
2. Take all practical precautions to avoid any financial decision that would negatively impact current credit rating(s) on existing or future debt issues.
3. Effectively utilize debt capacity in relation to Village population growth and the tax base, or utility rate base to meet long-term capital requirements. The highest priority for the issuance of debt will be to fund a portion of the Village's Capital Improvement Plan.
4. Consider market factors when setting a sale date.
5. Determine the amortization (maturity) schedule which will best fit with the overall debt structure of the Village's general obligation debt and 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.
6. Assess financial alternatives to include new and innovative financing approaches, including, whenever feasible, categorical grants, revolving loans or other state/federal aid.
7. Minimize interest expense and issuance costs.

Debt Issuances

Authority and Purposes of the Issuance of Debt

The laws of the State of Illinois authorizes the issuance of debt by the Village. The Illinois Municipal Code 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 Village may contract debt to pay for the cost of acquiring, constructing, reconstructing, improving, extending, enlarging, and equipping such projects, or to refund bonds.

Types of Debt Issuances

- *Short Term Debt (three years or less):* The Village may issue short-term debt which may include, but not be limited to, bond anticipation notes or variable rate demand notes, those instruments which allow the Village to meet cash flow requirements or provide increased flexibility in financing programs.
- *Long Term Debt (more than three years):* The Village may issue long-term debt which may include, but not limited to, general obligation bonds, certificates of participation, debt certificates, installment notes, revenue bonds, special assessment bonds, and alternate revenue bonds. The Village may also enter into long-term leases for public facilities, property, and equipment with a useful life greater than one year.

Structure of Debt Issuances

The duration of a debt issue shall not exceed the economic or useful life of the improvement or asset that the issue is financing. The Village 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 debt 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; and the bonds will mature in installments, the first of which is payable not more than five years from the dated date of the bonds.

Sale of Securities

Indebtedness to be issued by the Village will be offered through the competitive bidding process via sealed proposal or live auction, except as expressly approved by the Mayor and Village Board. If it is proposed that debt not be issued through competitive bidding, such request will state the compelling reasons why the competitive bidding process is not deemed suitable for the particular issuance of debt. Under these conditions, the Village's financial advisor will conduct a request for proposals to select the underwriter.

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

Credit Enhancements

The Village 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 Village 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 Village Board.

Legal Constraints

State Law

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

Authority for Debt

The Village 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 except current expenses, unless approved by the Village Board.

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 assessed value of real estate property. *Since the Village is a home rule community, the Village is not subject to these limitations. However, the Village shall impose the non-home rule limit upon itself.*

Credit Implications

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

- *Ratio of Net Bonded Debt to Estimated Full Value*: The formula for this computation is Net General Obligation Bonded Debt (not self-supported by an enterprise fund), which is the total outstanding debt divided by the current Estimated Full Value as determined by the most recent EAV times three.
- *Net Bonded Debt Per Capita*: The formula for this computation is Net Bonded General Obligation Debt (not self-supported by an enterprise fund) divided by the current population as determined by the most recent census information available.
- *Median Income*: The computation is obtained from the most current census data.
- *Ratio of Annual Debt Service to General Government Expenditures*: The formula for this computation is annual general obligation debt service expenditures divided by General Government (i.e., General, Special, and Debt Service Funds) expenditures (excluding certain interfund transfers).
- *Rapidity of Debt Service Repayment*: The Village will typically use level or declining debt repayment schedules, avoiding back-loaded or balloon repayment schedules. The Village will not use variable-rate-debt to avoid fluctuations in debt service requirements as well as fluctuation in tax levy rates. Only in those circumstances where it is to the Village's advantage will debt service be scheduled on a non-even repayment basis, back-loaded or balloon repayment schedules. This provision does not apply to existing debt obligations or debt issued by others, such as Village of Oak Lawn debt incurred for the Regional Water System.

Debt Administration

Review of Financing Proposals

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

Establishing Financing Priorities

The Finance Director shall administer and coordinate the Village'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 Village's financial advisor shall meet, as appropriate, with the Village Manager and the Village Board regarding the status of the current year's program and to make specific recommendations.

Ratings Agency Relations

The Village shall endeavor to maintain effective relations with the rating agency(s). The Village Manager, Finance Director, and the Village's financial advisors shall meet with, make presentations to, or otherwise communicate with the rating agency(s) on a consistent and regular basis in order to keep the agencies informed concerning the Village's capital plans, debt issuance program, and other appropriate financial information.

Refunding Policy

The Village shall consider refunding outstanding debt when legally permissible and financially advantageous. The Village shall review refunding opportunities in accordance with best practices set forth by the Government Finance Officers Association.

Investment of Borrowed Proceeds

The Village will invest bond proceeds in accordance with the Village's adopted investment policy.

The Village 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 Village. The management of public funds shall enable the Village 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.

Federal Arbitrage Rebate Requirement

The Village shall maintain or cause to be maintained an appropriate system of accounting to calculate bond investment arbitrage earnings in accordance with the Tax Reform Act of 1986, as amended or supplemented, and applicable United States Treasury regulations related thereto. Such amounts shall be computed annually and transferred from the Bond Construction Fund (i.e., interest earnings revenue account) to the Debt Service Fund escrow account, or other appropriate accounts, for eventual payment to the United States Treasury.

In order to avoid arbitrage earnings on bond proceeds, Village staff shall recommend issuance of debt based upon the cash flow needs of the capital improvement project in which contracts for construction or other goods and services can reasonably be expected to be awarded during the calendar year. Consideration shall be given to the feasibility of obtaining rights-of-way, engineering services, or other matters which may affect the completion of the project in a timely manner, before a recommendation to issue debt is made.

Conduit Financing

Under federal and State statutes, the Village Board has the authority to issue tax-exempt bonds for non-profit organizations organized under Internal Revenue Code 501 (c) (3), and economic development revenue bonds, also known as private activity bonds, under the Tax Reform Act of 1986. These tax-exempt bonds shall be collectively referred to as conduit financings. The Village has no liability or responsibility for repayment of the debt authorized under these statutes.

The following policy and procedures shall be followed prior to the issuance of any such debt:

1. The applicant shall contact the Finance Director and submit a formal application for the issuance of a conduit financing.
2. For private activity bonds (economic development revenue bonds), the application shall include a written proposal which should include, but not be limited to, the following information, where applicable:
    a. A description of the project including original issuance, refinancing, recollateralization or other action sought;
    b. A statement indicating the amount of funding required for the project and a description of the purpose for which such funding will be used;
    c. A description of any proposed financing arrangement for the project (e.g., loan agreement, or Village to own the project and lease to applicant);
    d. A statement of the public purpose to be served by the issuance of economic development revenue bonds for the project;
    e. An anticipated construction schedule and schedule for completing the financing;
    f. The name and address of the proposed purchaser of the economic development revenue bonds proposed to be issued, if known;
    g. A complete description, with such supporting exhibits as may be appropriate, of the physical aspects of the project;
    h. Projected number of vehicles entering the facility area per day;
    i. Ability of the streets to carry additional load;
    j. Drainage/storm sewer requirements;
    k. Utility requirements;
    l. Ability of the schools to accommodate possible enrollment increases;
    m. Financial stability of the applicant;
    n. Description of principal business of applicant;
    o. Number of employees anticipated at the new facility;
    p. Number of new jobs to be created;
    q. Number of management level employees;
    r. Types of skills required by the facility's employees;
    s. Yearly payroll/average employee salary;
    t. Projected appraised/assessed value of the facility's real personal property in Orland Park;

        u. Number of years the prospective tenant has been in business;
3. For the issuance of 501 (c) (3) bonds the proposal shall include all of the information listed in section 2. above as well as the following, as applicable:
    a. A statement of the public purpose to be served by the issuance of 501 (c) (3) revenue bonds for the project;
4. The information submitted by the applicant should be reviewed by the Finance Director and the Village's financial and legal advisors and a summary of such information, together with an evaluation thereof and the recommendation of the staff should be presented to the Village Board as promptly as practicable thereafter. In addition, the Village may retain the services of qualified legal counsel to act as special counsel or the Village's financial advisor to do a study of the economic viability of the project. The applicant shall be responsible for all fees of the financial and legal advisors and shall deposit with the Village a sum sufficient to cover such costs and fees as determined from time to time by the Finance Director.
5. The Village Board shall review the report presented to them by the Village staff as promptly as practicable after receipt thereof and shall take one of the following actions:
    a. Notify the applicant in writing that its proposal has been rejected and refund to the applicant any uncommitted balance of the deposit, if any.
    b. Adopt a resolution of intent to proceed with the project and refund to the applicant any uncommitted balance of the deposit, if any.
6. If a resolution of intent is adopted by the Village Board, the financing, refinancing, or recollateralization may proceed pursuant to the provisions of this policy. All costs of issuance associated with such financing, including any expenses attributable to the Village, shall be borne by the applicant.

TIF Debt

Tax Increment Financing debt is excluded from this policy when it is governed by a specific TIF redevelopment agreement and does not include the issuance of general obligation bonds.

Volume Cap Allocation

Private activity bonds can be issued as Industrial Revenue Bonds (IRB) using the volume cap allocation. There is no obligation to the municipality in issuing IRB's. All the payment responsibility rests with the private party. The lien is on the property, secured by the IRB's. Under Federal Law, the Village can utilize the authorized volume cap as additional incentive for industrial firms to relocate or expand facilities within its jurisdiction. IRB's can be attractive to industrial firms because of the difference to the bond buyers between the tax-free interest rates and the prevailing taxable interest rates.

If the volume cap allocation has not been used, the Village can transfer its allocation of volume cap to any other home rule unit of government, the State of Illinois or any agency thereof or any non-home rule unit of government in accordance with state law. This may be done for a variety of purposes, including the issuance of single family mortgage revenue bond or mortgage credit certificates by Issuer or of such other purpose permitted.

Each home rule municipality is authorized a volume cap amount equal to $105 per capita. Using this formula, Orland Park's allocation in 2020 equals $6,122,760, based upon the State's assigned population of 56,767.

Each year, if the Village's volume cap allocation has not been used, the Village can reserve its allocation for use in the future. According to the State Office of Management and Budget, after the volume cap has been reserved, the municipality is supposed to allocate the amount reserved for private activity bonds by December 31 of that year. If the Village does not allocate its volume cap by December 31, the Village can request to carry-over its allocation for up to three years for a variety of different projects, but not for qualified small issue bonds (Industrial Revenue Bonds).