

DEBT SERVICE POLICY

The Debt Service Funds account for the payment of principal and interest on general obligation bonds that are backed by the full faith and credit of the City of Beloit. It has been the practice of the City to fund tax increment financing projects through the issuance of general obligation bonds and to abate property taxes with incremental tax revenues. Additionally, the City has issued General Obligation Debt that has financed improvements that are to be repaid from Special Revenue and Enterprise Funds. Therefore, Debt Service Fund revenues reflect not only the receipt of property taxes, but also include transfers from the special revenue and enterprise funds.

The City currently has a Five-Year Financial Management Plan. Within the plan is a governing policy for long-term debt. The policy states:

BOND RATING

The City should strive to improve its credit rating from the current A+ level to at least an A2 rating within the next three-year period.

USE OF DEBT

Use of the City's borrowing authority should be balanced between ongoing infrastructure maintenance and replacement and expenditures that would provide for tax base expansion and economic/housing development.

Debt should not be used for items of a recurring nature. Equipment should continue to be funded from cash and cash reserves allocated for it. Debt may be used for larger fire apparatus if so desired.

Debt should be structured to reflect the useful life of items being financed. Balloon payments are to be generally avoided.

Utility projects should be funded by Revenue Debt vs. General Obligation Debt thereby assuring that the items being financed will be paid for by users and that the General Obligation debt capacity will be preserved.

DEBT LOAD LIMITATIONS

Total use of General Obligation Debt shall generally be limited to not more than 3.0 to 3.5% of total Equalized Valuation.

General Obligation Debt (total principal outstanding) per capita shall generally not exceed \$950 to \$1,050 in any year.

The Equalized Tax Rate for debt shall generally not exceed \$3.80 to \$4.25/\$1,000 of equalized valuation in any year.

Prior to any borrowing, the projected impact of the borrowing on the current and future years' equalized tax rate must be identified and approved. The calculation shall be done for both the proposed issue on a "stand alone basis" and the proposed issue when combined with the levy for outstanding debt payments annually.

The ratio of total annual debt payments to the annual operating budget shall generally not exceed 15 to 20% in any year. Net debt Levy shall generally not exceed 10 to 15% of the annual operating budget.

FUND BALANCE

The City shall seek to achieve and maintain a general fund undesignated and unreserved fund balance of between 10 to 15% of operating revenues at all times.

Any balance in the Debt Service Fund shall be carried into the General Fund Balance only after all of the payments of municipal obligations for which the funds were appropriated into the debt service fund have been fully paid and canceled, consistent with the provisions of Sec. 67.11(5) Wis. Stats.

NON-LEVY REVENUES AVAILABLE FOR DEBT

The City will seek to match non-levy revenues to debt payments where available to minimize or avoid any need for General Tax Levy subsidy of enterprise or special revenue fund activities. Where such revenues are not available, prior to borrowing funds for such purposes, the City will identify the impact to the General Tax Levy and approve such subsidy as a matter of policy.

ADVANCE REFUNDING

Advance refunding should only be considered when the net present value of the savings is at least 2.5% of the principal being refunded. Exceptions to this savings standard may be considered if advance refunding of an issue, which funded a Tax Increment District, is required to better match available TID Fund cash flows to avoid or reduce a subsidy by the General Fund.

Along with this policy, the City has a statutory General Obligation debt limit of 5% of the equalized valuation.