Village of Johnstown
Debt Policy approved via Resolution 2011-19

I. PURPOSE

The Debt Financing Policy Statement sets forth comprehensive guidelines for the financing of capital expenditures. It is the objective of the policies that (1) the Village obtain financing only when necessary, (2) the process for identifying the timing and amount of debt or other financing be as efficient as possible, (3) the most favorable interest rate and other related costs be obtained, and (4) when appropriate, future financial flexibility be maintained.

Debt financing, which includes general obligation bonds, special assessment bonds, revenue bonds, temporary notes, lease/purchase agreements, and other Village obligations permitted to be issued or incurred under Ohio law, shall only be used to purchase capital assets that cannot be acquired from either available current revenues or fund balances. The useful life of the asset or project shall exceed the payout schedule of any debt the Village assumes.

To enhance creditworthiness and prudent financial management, the Village is committed to systematic capital planning, intergovernmental cooperation and coordination, and long-term financial planning. Evidence of this commitment to capital planning will be demonstrated through adoption and periodic adjustment of the Village's Comprehensive Plan and the adoption of a Capital Improvement Plan (CIP) identifying the benefits, costs and method of funding each capital improvement planned for the succeeding five years.

II. RESPONSIBILITY FOR POLICY

The primary responsibility for developing debt financing recommendations rests with the Finance Director. In developing such recommendations, the Finance Director shall be assisted by the Finance Committee and Village Manger. They will meet at least annually to (1) Consider the need for debt financing and assess progress on the current Capital Improvement needs and any other program/improvement deemed necessary by the Village Manager; (2) test adherence to this policy statement and to review applicable debt ratios serving as benchmarks; (3) review changes in federal and state legislation that affect the Village's ability to issue debt and report such findings to Council as appropriate; (4) review annually the provisions of resolutions authorizing issuance of general obligation bonds of the Village; (5) review the opportunities for refinancing current debts; and (6) review annually the services provided by the Village's financial advisor, bond counsel, paying agents and other debt financing service providers.

The report shall be based in part on information collected from departmental managers for the Village and shall include a projection of near term financing needs compared to available resources, an analysis of the impact of contemplated financings on the property tax rate and user charges, and a final financing recommendation. In developing financing recommendations the following l be considered: the length of time proceeds of obligations are expected to remain on hand and their related carrying costs; the options for interim financing including short term and inter-fund borrowing, taking into consideration federal and state reimbursements; the effect of proposed actions on the tax rate and user charges; trends in bond markets; trends in interest rates; and, other factors as deemed appropriate.

III. USE OF DEBT FINANCING

Debt financing will not be considered appropriate for any recurring purpose such as current operating and maintenance expenditures. The Village will use debt financing only for one-time capital improvement projects and unusual equipment purchases, and only under the following circumstances: when the project is included in the Village's five-year capital improvement program; or when the project involves acquisition of equipment that can't be purchased outright without causing an unacceptable spike in the income tax rate; or when the project is the result of growth-related activities within the community that require unanticipated and unplanned infrastructure or capital improvements by the Village; and when the project's useful life, or the projected service life of the equipment, will be equal to or exceed the term of the financing; and when there are designated revenues sufficient to service a debt, whether from project revenues, other specified and reserved resources, or infrastructure cost sharing revenues. The following criteria will be used to evaluate pay-as-you-go versus debt financing in funding capital improvements:

Factors which favor pay-as-you-go financing include circumstances where:
_ the project can be adequately funded from available current revenues and fund balances;
_ the project can be completed in an acceptable timeframe given the available revenues;
_ additional debt levels could adversely affect the Village's credit rating or repayment sources;
or market conditions are unstable or suggest difficulties in marketing a debt
Factors which favor long-term debt financing include circumstances where:
_ revenues available for debt issues are considered sufficient and reliable so that long-term financing can be marketed with an appropriate credit rating, which can be maintained;
_ market conditions present favorable interest rates and demand for Village debt financing;
_ a project is mandated by state or federal government and current revenues or fund balances are insufficient to pay project costs;
_ a project is immediately required to meet or relieve Village needs and existing cash reserves are insufficient to pay project costs; or
_ the life of the project or asset financed is five years or longer.

IV. MAXIMUM AMOUNTS OF DEBT FINANCING

The Village will not engage in debt financing unless the proposed obligation, when combined with all existing debts, will result in debt ratios throughout the life of the proposed obligation that are less than the following benchmarks. Per capita direct, overlapping and underlying debt will not exceed $3,000. Direct debt as a percentage of estimated full market value will not exceed 1.5% Direct, overlapping and underlying debt as a percentage of estimated full market value will not exceed 8.0%. Annual debt service will not exceed 20% of budgeted expenditures The computation of these ratios will use the following variables. Per capita measures will be based on the most recent annual estimate of Village population produced by the Metropolitan Area Planning Department for the year in question. Direct debt will be the total of all then outstanding General Obligation, special assessment, and Public Building Commission bonded debt plus all authorized but unissued bonded debt plus the amount of debt financing being proposed. Direct, overlapping and underlying debt will be the total of direct debt plus all General Obligation bonded debt and Public Building Commission debt of each Village, township, school district, and special purpose governmental district located within Village of Johnstown as of the most recent December 31, but will exclude bonds backed solely by a dedicated non-advalorem revenue, industrial revenue bonds and mortgage revenue bonds. Estimated full market value will be the total appraised value of all real and personal property located within the Village of Johnstown for the year in question as estimated by the Franklin County Finance Director. Annual debt service will be the total principal and interest payments due on direct debt in the year in question plus the estimated maximum annual principal and interest payment on the proposed long term obligation. Budgeted expenditure will be the total original adopted budget of the General Fund and debt service fund for the year in question.

V. STRUCTURE AND TERM OF DEBT FINANCING

General

Village debt will be structured to achieve the lowest possible net interest cost to the Village given market conditions, the urgency of the capital project, and the nature and type of any security provided. Village debt will be structured in ways that will not compromise the future flexibility to fund projects. Moreover, to the extent possible, the Village will design the repayment of its overall debt issues so as to rapidly recapture its credit for future use. As a benchmark, the Village shall strive to repay at least 30% of the principal amount of its bonded debt within five years and at least 60% within ten years. The Village shall use an objective analytical approach to determine whether it can afford to issue new bonds for Village facilities beyond what it retires each year (*see Assumption of Additional debts below*) Generally, this process will compare a variety of measures of debt benchmarks relative to key demographic data of the Village. The decision on whether or not to assume new general obligation or Public Building Commission bonds shall, in part, be based on (a) costs and benefits, (b) the current conditions of the municipal bond market, and (c) the Village's ability to assume new general obligation bonds as determined by the aforementioned benchmarks.

NOTE: *The provisions of this section also apply to the issuance of any private activity bonds.*

Revenue Bonds

The Village may issue bonds secured solely by dedicated non-advalorem revenue streams if doing so will yield clearly identifiable advantages. For the Village to issue revenue bonds, a primary objective will be to minimize risk through the use of adequate coverage requirements while remaining in compliance with overall debt management policy objectives. The Village will adhere and where necessary take actions to ensure compliance with all outstanding revenue bond covenants.

Special Assessment Bonds

The Village shall maintain a watchful attitude over the issuance of special assessment bonds for benefit district improvements. While the Village’s share of any benefit district project may fluctuate, the Village will not pay more than 50% of any proposed costs related to a benefit district. Further, it will be the responsibility of the Finance Director to analyze each special assessment bond issue for indications that future special assessments will equal or exceed the annual principal and interest payments of such bonds. A report on the findings of the Finance Director will be submitted to the Mayor prior to the approval of any special assessment bond issue.

Assumption of Additional Debts

The Village shall not assume more debt than it retires each year without conducting an objective analysis of the community's ability to assume and support additional debt service payments and of the probable impact of the additional debt on the Village’s bond ratings.

Asset Life

The Village will consider debt financing for the acquisition, replacement, or expansion of physical assets (including land) only if a capital project has a useful life longer than the term of the bond issue supporting it. Debt will be used only to finance capital projects and equipment, except in case of unforeseen emergencies. Debt will not be issued for periods exceeding the useful life or average useful lives of the project or projects to be financed.

Length of Debts

Village debts will be amortized for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users, and in keeping with other related provisions of this policy. The Village normally shall issue bonds with a maximum life of 20 years or less for general obligation bonds, Public Building Commission bonds, and revenue bonds, and 15 years or less for special assessment bonds. Unless specific compelling reasons exist there shall be no "balloon" bond repayment schedules, which consist of low annual payments and one large payment of the balance due at the end of the term. There shall always be at least interest paid in the first fiscal year after a bond sale and principal repayment starting no later than the second fiscal year after the bond issue.

Call Provisions

Call provisions for bond issues shall be made as short as possible consistent with the lowest interest cost to the Village. Unless specific compelling reasons exist all bonds shall be callable only at par.

Debt Structuring

At a minimum, the Village will seek to amortize general obligation bonds with level principal and interest costs over the life of the issue. Pushing higher costs to future years in order to reduce short-term budget liabilities will be considered only when natural disasters or extraordinary or unanticipated external factors make the short-term cost of general obligation bonds prohibitive.

Variable Rate Debts

The Village may choose to issue bonds that pay a rate of interest that varies according to pre-determined formula or results from a periodic remarketing of the securities, consistent with state law and covenants of preexisting bonds, and depending on market conditions.

Derivatives

The Village will not participate in the issuance and sale of derivative instruments, and will not consider their Utilization.

VI. DEBT ADMINISTRATION AND FINANCING

Financing Proposals

Any capital financing proposal of a Village division, agency, or utility involving the pledge or other extension of the Village's credit through sale of bonds, execution of loans or leases, or otherwise involving directly or indirectly the lending or pledging of the Village's credit, shall be referred to the Finance Committee for review before such pledge is considered by Village Council.

Bond Retirement Fund

All payment of general obligation bonds and special assessment bonds shall be from the Village's Debt Service Fund. The fund balance in the Debt Service Fund will be maintained at a level equal to or greater than the total principal and interest payable from that Fund for the upcoming semi-annual debt service payment. Furthermore, the fund balance will be managed to eliminate or minimize arbitrage rebate liability.

Bond Counsel

The Village will utilize external bond counsel for all debt issues. All debts issued by the Village will include a written opinion by Bond Counsel affirming that the Village is authorized to issue the debt, stating that the Village has met all Federal and State constitutional and statutory requirements necessary for issuance, and determining the federal income tax status of the debt.

Underwriter's Counsel

Village payments for Underwriters Counsel will be authorized for negotiated sales by the Finance Director on a case-by-case basis depending on the nature and complexity of the transaction and the needs expressed by the underwriters.

Financial Advisor
The Village may retain an external financial advisor selected for a term of up to three years through a competitive process administered by the Finance Committee. The utilization of the financial advisor for each debt issuance will be at the discretion of the Finance Committee on a case-by-case basis. For each Village bond sale the financial advisor will provide the Village with information on pricing and underwriting fees for comparable sales by other issuers.
Temporary Notes
Use of short-term borrowing, such as temporary notes, will be undertaken only if the transaction costs plus interest on a debt are less than the cost of internal financing, or available cash or reserves are insufficient to meet both project needs and current obligations.
Credit Enhancements
Credit enhancement (letters of credit, bond insurance, etc.) may be used if the costs of such enhancements will reduce the net debt service payments on the bonds or provide other significant financial benefits to the Village.
Lease/Purchase Agreements
The use of lease/purchase agreements in the acquisition of vehicles, equipment and other capital assets shall be considered carefully relative to any other financing option or a "pay-as-you-go" basis. The lifetime cost of a lease typically will be higher than other financing options or cash purchases. Nevertheless, lease/purchase agreements may be used by the Village as funding options for capital acquisitions if operational or cash-flow considerations preclude the use of other financing techniques.

VII. REFUNDING OF DEBTS
Periodic reviews of all outstanding debts will be undertaken to determine refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding or the refunding is essential in order to modernize covenants essential to operations and management. Village staff and the financial advisor shall monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debts. As a general rule, current refundings will be undertaken only if the present value savings of a particular refunding will exceed 3% of the refunded principal. As a general rule, advance refundings will be undertaken only if the present value savings of a particular refunding will exceed 4% of the refunded principal. Refunding issues that produce a net present value savings of less than targeted amounts may be considered on a case-by-case basis. Refunding issues with negative savings will not be considered unless a compelling public policy objective is served by the refunding.

VIII. CONDUIT FINANCINGS
The Village may sponsor conduit financings in the form of Revenue Bonds for those activities (i.e.,economic development, housing, health facilities, etc.) that have a general public purpose and are consistent with the Village's overall service and policy objectives as determined by the Village Council. All conduit financings must insulate the Village completely from any credit risk or exposure and must first be approved by the Village Manager and Finance Director before being submitted to Village Council for consideration.

IX. ARBITRAGE LIABILITY MANAGEMENT
It is the Village's policy to minimize the cost of arbitrage rebate and yield restriction while strictly complying with the law.
General
Federal arbitrage legislation is intended to discourage entities from issuing tax-exempt obligations unnecessarily. In compliance with the spirit of this legislation, the Village will not issue obligations except for identifiable projects with very good prospects of timely initiation. Temporary notes and subsequent long-term bonds will be issued timely as project contracts are awarded so that debt issues will be spent quickly.

Responsibility
Because of the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the advice of Bond Counsel and other qualified experts will be sought whenever questions about arbitrage rebate regulations arise.

X. CREDIT RATINGS

Rating Agency Relationships
The Finance Director shall be responsible for maintaining relationships with the rating agencies that currently assign ratings to the Village's various debts. This effort shall include providing periodic updates on the Village's general financial condition along with coordinating meetings and presentations in conjunction with a new debt issuance.

Use of Rating Agencies
The Finance Director shall be responsible for determining whether or not a rating shall be requested on a particular financing and which of the major rating agencies shall be asked to provide such a rating.

Minimum Long-Term Rating Requirements
The Village's minimum rating requirement for its direct, long-term, debt obligations is a rating of "AA" or higher. If a given debt cannot meet this requirement based on its underlying credit strength, then credit enhancement may be sought to ensure that the minimum rating is achieved. If credit enhancement is unavailable or is determined by the Finance Director to be uneconomical, then the obligations may be issued without a rating.

Rating Agency Presentations
Full disclosure of operations and open lines of communication shall be provided to rating agencies used by the Village. The staff of the Finance Director, with assistance of the Village's Financial Advisor, shall prepare the necessary materials and presentation to the rating agencies.

Financial Disclosure
The Village is committed to full and complete primary and secondary financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, Village departments and agencies, other levels of government, and the general public to share clear, comprehensible, and accurate financial information. The Village is committed to meeting secondary disclosure requirements on a timely and comprehensive basis. Official statements accompanying debt issues, Comprehensive Annual Financial Reports, and continuous 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 Finance Director shall be responsible for ongoing disclosure to established national information repositories and for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies.

Village of Johnstown

Debt Management Policy

TERMINOLOGY

Advance Refunding. Bonds sold to refinance outstanding bonds 90 or more days prior to their maturities and prior to call dates established in the bond indenture of the outstanding bonds.
Arbitrage. Arbitrage refers to the rebate or penalty amount due to the Internal Revenue Service where funds received from the issuance of tax-exempt debt have been invested and excess interest earnings have occurred, or where tax-exempt bond proceeds are not spent for their intended purposes within the times permitted by federal regulation. As used in this policy, 'excess interest earnings' means interest earned at a rate in excess of the arbitrage permitted yield on any individual bond issue.

Current Refunding. Bonds sold to refinance outstanding bonds prior to their maturities but after or shortly before call dates established in the bond indenture of the outstanding bonds. A current refunding can take place no earlier than three months before the 'call' and any time after the call. Payment of the outstanding bonds must occur within 90 days of selling the current refunding bonds.

Derivatives. Securities the value of which depends on or is derived from one or more separate indices of asset values. Derivative products issued by local governments may include floaters / inverse floaters, collateralized mortgage obligations (CMOs), forwards, futures, and options.

General Obligation Bonds. Bonds backed by the full faith and credit of the Village. Bondholders have the power to compel the Village to levy property taxes to repay the bonds if necessary.

Lease/Purchase Agreements. The Village enters into a lease agreement with another party (typically a third-party vendor) to lease an asset over a defined period of time at a prearranged annual payment. Lease payments are made primarily from operating fund revenues. The legislative body appropriates annual lease payments unless it chooses not to appropriate under the Ohio cash basis law. If lease payments are not appropriated, ownership of the leased property reverts to the lessor. At the conclusion of the lease term, the Village receives unencumbered ownership of the property.

Public Building Commission Bonds. Bonds issued by the Sedgwick Village Public Building Commission that are secured by lease revenues paid to the PBC by the governmental entity for which the bonds were issued. The PBC is authorized to finance, build and/or operate facilities that serve a public purpose when asked to do so by the Village or another governmental entity. The requesting government enters into a lease agreement with PBC for the right to occupy the facility, and the lease payments are equal to the annual debt service and operating costs of the PBC. PBC bonds are revenue bonds because they are secured solely by the lease agreement. PBC leases executed by the Village are general obligations of the Village because they are backed by the full faith and credit of the Village.

Revenue Bonds. Bonds secured by revenues generated by the facility from dedicated user fees, or by one or more non-advalorem revenue sources. Planning for such issues generally is more complex because future costs and revenues directly affect each other. Credit enhancements (e.g., insurance or letter of credit) may be needed because of the limited source of debt service payments that may be available in outlying years

Special Assessment Bonds. Bonds issued to develop facilities and basic infrastructure for the benefit of properties within the assessment district. Assessments are levied on properties benefited by the project. The issuer's recourse for nonpayment is foreclosure and the remaining debt becomes the Village's direct obligation, repaid from property taxes.

Temporary Notes. Notes are issued to provide temporary financing, to be repaid by long-term financing. This type of bridge financing has a maximum maturity of four years under Ohio law.