CITY OF PITTSBURG, KANSAS
DEBT MANAGEMENT POLICY

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. 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 Manager, City Commission, and all city departments may work to effectively use the financing options available to provide quality services to the citizens of Pittsburg, while maintaining financial integrity.

The City will seek to achieve and maintain the highest bond rating available. The City will follow a policy of full disclosure as required by legal and professional guidelines in its relations with rating agencies, Government Finance Officers Association, Securities and Exchange Commission rules, 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, not only based on the debt of the city but also 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).

RESPONSIBILITY FOR POLICY

The primary responsibility for administering this policy rests with the Director of Finance, who shall be assisted by the City Manager, and the City Attorney. Together these three staff members shall comprise the Debt Management Committee.

The responsibilities of the committee shall be:

- Meet at least annually to consider the need for debt financing and assess the progress of the current Capital Improvement Plan and other improvements/programs deemed necessary by the City Manager
- Meet at least semi-annually to test compliance to this policy statement and review applicable debt ratios serving as benchmarks as set forth on page 4.
- Review changes in federal and state legislation that affect the City's ability to issue debt and report such findings as appropriate
- Review annually the provisions of ordinances authorizing issuance of bonds
- Review at least semi-annually the opportunities for refinancing current debt and
- 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 Debt Management committee will consider:
    - Options for interim financing including short-term and inter-fund borrowing, where allowable
    - Effects of proposed actions on tax rate user charges
    - Trends in bond market structures
    - Other factors deemed appropriate

USES OF DEBT FINANCING

The City of Pittsburg will not issue long-term debt for routine operations; including routine repairs and maintenance, small tools, or equipment of the type normally paid from the operations budget, or to capitalize expenses.

Long-term debt will be used only for capital projects or specialized equipment that cannot be financed from current revenue sources.

The project for which debt issuance is being considered shall be on the City's five-year Capital Improvement Plan and can't be acquired without causing an unacceptable spike in revenue sources or unacceptable reduction of reserves. However, the project can be considered without being on the five-year capital improvement plan if it is the result of growth-related activities within the community that require unanticipated and unplanned infrastructure or capital improvements by the City or in the event the City has an emergency situation.

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 and reserved sources.

Long-term financing must be able to be marketed with an appropriate credit rating, which can be maintained, market conditions must present favorable interest rates and demand for City debt obligations.

The City will not issue general obligation debt or provide the full faith and credit backing or other credit enhancement to any Community Improvement Development (CID) project or in any way put the general revenues of the City at risk to finance a CID project or reimburse eligible expenses.

The City will not issue general obligation debt or provide the full faith and credit backing or other credit enhancement to any Tax Increment Financing (TIF) project or in any way put the general revenues of the City at risk to finance a TIF project or reimburse eligible expenses.

STRUCTURE AND TERMS OF DEBT FINANCING

The City will only use level or declining debt repayment schedules; 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 Pittsburg Public Utilities, which is an enterprise fund and is not subject to the vote of the people.

Debt will be structured to match cash 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 instruments of investment of debt proceeds for construction type projects will be limited to those identified in the City's investment policy.

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.

For general obligation debt (or other types of debt issued by the general government) the ratios to be used are:

STATUTORY

Net Direct Bonded Debt as a percentage of Assessed Value	
(In accordance with K.S.A. 10-308)	30%

INTERNAL GOALS

Net Direct Bonded Debt Per Capita	$2,000
Net Direct Bonded Debt Per Capita as a percentage of Per Capita Income	8%
Comparison to Statutory Debt Limitations	67%
Net overall debt per capita (overlapping debt)	$2,500
Mill Rate Not to Exceed	10 Mills

FOR REVENUE FUNDED DEBT, THE RATIOS TO BE USED ARE:

Debt Service Coverage	115%
Debt Service Safety Margin	115%

Gross income needs to pay all of the following:

- Operating expenses
- Scheduled long-term debt
- Capital improvements
- Minimum reserves

The City of Pittsburg 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 Department Debt Management Committee 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. The minimum fund balance in the Bond & Interest Fund will be maintained at a level equal to or greater than 100% of the total principal and interest payable from that Fund for the upcoming fiscal year. The Debt Service Fund balance will be managed to eliminate or minimize arbitrage rebate liability.

Reserve Funds
Adequate operating reserves are important to insure the functions of the City during economic downturns. The City's goal is to maintain a contingency reserve in the General Fund and/or Revolving Loan Fund of no less than sixteen percent or two months of annual expenditures. The City will maintain working capital in an enterprise fund sufficient to finance 60 days of operations, if the fund supports debt repayments. In addition, all reserves specified by bond indentures must be maintained.

POST ISSUANCE MANAGEMENT

The City will establish procedures for ensuring the City complies 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 meeting secondary disclosure requirements on a timely and comprehensive basis. 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, Comprehensive Annual 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. The City will post the year-end financial report along with any other required information to the Electronic Municipal Market Access (EMMA) Web site 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.

For more information on Post Debt Issuance Compliance, reference the Debt Issuance Compliance Policy, as approved by the City Commission on April 24, 2012.

CREDIT RATINGS:

The Finance Director shall be responsible for determining whether a rating shall be requested on a particular financing and which of the major rating agencies shall be asked to provide such a rating.

Once a rating has been requested, the Finance Director shall be responsible for maintaining relationships with the rating agency(ies) that currently assign ratings to the City's debt. This effort shall include periodic updates on the City's general financial condition along with coordinating meetings and presentations in conjunction with 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.

GLOSSARY

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 purpose 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.

Community Improvement District (CID) - may be either a political subdivision or a not-for-profit corporation and are defined geographic areas. CID's are organized for the purpose of financing a wide range of public-use facilities and establishing and managing policies and public services relative to the needs of the district

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

Lease/Purchase Agreements - The City enters into a lease/purchase agreement with another party (typically a third-party vendor) to lease an asset over a defined period of time at a pre-arranged annual payment. Lease/purchase payments are made primarily from operating revenues. The City Commission appropriates annual lease/purchase payments unless it chooses not to appropriate under the Kansas cash basis law. If lease/purchase payments are not appropriated, ownership of the property remains in the leasing party. At the conclusion of the lease term, the City either receives unencumbered ownership of the asset or receives an option to purchase the asset at a predetermined price.

Lease Agreements - The City enters into a lease agreement with another party (typically a third-party vendor) to take temporary possession of an asset over a defined period of time at a pre-arranged payment, made from operating revenues. The Commission appropriates lease payments unless it chooses not to under Kansas cash basis law. At the end of the leasing term, ownership of the asset remains in the leasing party.

Special Assessment Bonds - Bond 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 City's direct obligation, repaid from property taxes.

Tax Increment Financing (TIF) – is a public financing method that is used as a subsidy for development of blighted areas, infrastructure, and other public improvements.