

F-1

CITY OF OLATHE	Policy No.: F-1
COUNCIL POLICY STATEMENT	Date Issued: XX-XX-24
General Scope: Finance	Effective Date: XX-XX-24
Specific Subject: Debt Management and Fiscal Policy	Cancellation Date: Until Repealed
	Supersedes No.: Listed Below

Purpose:

To set forth the general public policy objectives of the city as relates to debt and fiscal management.

Statement of Policy:

The statement of policy is hereby incorporated with Resolution No. 20-1063. Previous debt management and fiscal policy was incorporated by Resolution Nos. 20-1063, 10-1073, 01-1115, 99-1002 and 89-1213.

RESOLUTION NO. 24-xxxx

A RESOLUTION ADOPTING A DEBT MANAGEMENT AND FISCAL POLICY FOR THE CITY OF OLATHE; AND REPEALING RESOLUTION NO. 20-1063.

WHEREAS, the City of Olathe ("City") has an important responsibility to its taxpayers to carefully account for public funds, to manage municipal finances wisely and to plan the adequate funding of services and improvements; and

WHEREAS, the financing of capital improvements by the City must be structured by ability to pay in order to maintain fiscal stability; and

WHEREAS, the Governing Body of the City has determined that there is a necessity to establish debt management policy and guidelines to provide the structure of continuing fiscal stability, reduce financial risk and maintain adequate contingency assets for present and future requirements.

NOW, THEREFORE, BE IT RESOLVED BY THE GOVERNING BODY OF THE CITY OF OLATHE, KANSAS:

SECTION ONE: The Governing Body of the City hereby adopts the debt management and fiscal policy as set forth following.

“DEBT MANAGEMENT AND FISCAL POLICIES”

A. General Policies

1. The City will conduct its debt management functions in a manner designed to maintain or enhance its existing general obligation credit ratings at AA+ or better and utility revenue bond credit ratings at AA or better.

2. Debt issuance will be utilized by the City only in those cases where public policy, equity and efficient use of limited resources favor debt over cash financing. Decision criteria considered may include, but not be limited to, the following:

(a) Debt shall be used to finance capital projects with a life expectancy of 10 years or greater.

(b) Debt shall be issued in such a way so that the term of the financing is shorter than the useful life of the asset.

B. Capital Improvements Program

1. A capital improvements program shall be prepared, submitted to, and approved by the Council.

2. The capital improvements program shall consist of a 5-year or longer priority listing of capital projects, accompanied by a financing plan. The financing plan should indicate the funding sources for each project (i.e., cash, debt, grants). The financing plan shall be in

accordance with the debt management policies contained herein.

3. It is the intent of these policies that authorized projects must be part of an adopted capital improvements program.

C. Management

1. It shall be the responsibility of the city manager or designee to maintain all necessary files associated with the issuance of City debt.

2. The city manager or designee shall submit for Council consideration a fiscal impact statement prior to any Council action to authorize a project involving the issuance of debt. The fiscal impact statement shall contain, at a minimum:

(a) An estimate of the debt service levy (net of the impacts of self-supporting revenues) to be required at the time of long-term debt issuance.

(b) A calculation showing the impact of this additional levy to the existing debt service levy at that time; and any projected user fee rate increases in the case of revenue bond financing.

3. Equipment replacement funds shall be established and funded annually to plan for and ensure that adequate funds are available to replace essential equipment on a timely basis.

D. Debt Issuance Purposes and Revenue Sources

1. Benefit district debt shall be issued in conformance with the City's benefit district policy (Policy PI-5). The following provisions shall apply:

(a) Bonds may be secured by the full faith and credit pledge of the City, but assessment payments shall be adequate to pay 100 percent of debt service unless otherwise stipulated by the creation document.

(b) Benefit district project costs shall include all construction, engineering, financing, legal and administrative costs of the program.

(c) Assessments for benefit district improvements will include a maximum of 5% of the total cost of the improvement to reimburse the City for services rendered by the City in

the administration and supervision of the improvement by its general officers. See K.S.A. 12-6a01(d). Such reimbursement will be charged in accordance with the following schedule:

Project Cost		
	5.0% Up to	\$ 100,000
\$ 5,000 Plus	4.0% Over	\$ 100,000
\$11,000 Plus	3.0% Over	\$ 250,000
\$18,500 Plus	2.0% Over	\$ 500,000
\$28,500 Plus	1.5% Over	\$1,000,000
\$51,000 Plus	1.0% Over	\$2,500,000

(d) Outstanding bonds will be retired when sufficient revenues are accumulated, provided that bonds have either reached their call date or a refunding escrow can be structured without material economic loss.

(e) Debt will not be issued by the City to finance projects for any entities with the authority to issue tax exempt bonds, though exceptions may be considered to finance public infrastructure for the benefit of connectivity to public schools. U.S.D. 233 is exempted from this policy.

2. Capital improvements shall be financed in accordance with the capital improvements program. Funds shall be available for the financing of general improvements in accordance with the following:

(a) To the extent funds described in paragraph F.2.(a) are in excess of that required by the City's general fund operating budget, the excess amount shall first be used to fully fund the operating capital general fund reserve to the level required in paragraph F.2.(f) by these policies and then used for cash financing of capital improvements.

(b) It shall be a goal of the City to finance at least a portion of the city-at-large capital improvement budget with cash financing.

(c) Debt service payments on non-benefit district general obligation bonds, not abated by other revenues, shall be paid from the debt service property tax levy.

(d) It is the City's practice to issue temporary notes for project expenditures anticipated to occur less than one year from the time of note issuance. Temporary note issuances will be planned to correspond with an annual long-term bond issuance, with a closing date designed to allow for all outstanding temporary notes from the prior year to be repaid on their due date each year. Long-term bonds will typically be issued for completed projects or portions of projects.

3. Debt issued for water, sewer, stormwater and other purposes for which operating and capital needs are supported by user fees shall be in the form of revenue bonds secured by the appropriate user fees and other utility revenues. User fees shall be adequate to support operating requirements and revenue bond covenants for each purpose.

4. Advance refunding or prepayment of outstanding debt may occur when the possibility of interest cost reduction exists, or the City wishes to restructure its debt service and/or amend its contractual bond requirements.

5. The City may be asked to issue revenue-only bonds relating to economic development. These bonds normally take the form of tax increment financing (TIF), transportation development district (TDD) or community improvement district (CID) bonds. The Governing Body has approved separate, detailed policies for each of these forms of economic development bonds and will comply with such policies.

E. Debt Issuance Limits, Debt Structure and Repayment Schedules

1. The City shall use the following limits to guide annual debt issuance and the development of the five-year capital improvement plan:

(a) The City's goal will be to not exceed 60% of its statutory debt limit.

(b) Amortization of general obligation debt in total, less temporary notes, will be structured to retire a target of 80%, with a minimum of 70%, of the City's indebtedness within ten (10) years.

(c) The City's direct debt, which includes general obligation bonds, notes and special

obligation bonds, will have a maximum targeted limit of 3% of total market value.

2. Debt structure shall be designed in accordance with the following, unless the City's financial advisor or bond counsel recommends an alternative approach:

(a) Issue tax-exempt debt when feasible. Taxable debt may be issued under the following criteria:

- It is required by IRS regulation; or
- Advantageous tax-rebated bond products are available under Federal or state law; or
- It is in the City's best interest to issue taxable debt to mitigate its risk of non-repayment; or
- The cost of taxable debt would not materially increase the City's cost of borrowing.

(b) General obligation debt should only use fixed rate obligations. Fixed rate obligations should generally be used for revenue bonds, certificates of participation, and special obligation bonds, unless variable rate debt provides for reduced interest costs over a multi-year period, after accounting for the additional costs and risk associated with such obligations, and significant flexibility in redeeming the bonds. If variable rate obligations are issued, the City shall budget debt service obligations at then-current fixed rate levels along with other cash reserves to ensure against interest rate increases- and to further mitigate periods of prolonged high short-term interest rates.

(c) Debt should be marketed on a competitive bid basis, if feasible. A negotiated sale may be undertaken upon the recommendation of the City's financial advisor if one or more of the following conditions exist: (1) the issue lacks sufficient credit quality; (2) the principal amount is extremely large or small; (3) the issue appeals to a relatively narrow investor base; (4) the bonds are issued under a new legal authority; (5) sufficient bidder participation is in question; or (6) the market is experiencing extreme volatility.

(d) Optional prepayment provisions should generally be included in each bond issuance.

(e) Derivative transactions are prohibited unless specifically approved by the City's Governing Body.

3. Repayment schedules should be designed to be less than the useful life of the asset and generally be in accordance with the following:

(a) Ten (10) years for most general obligation public improvement debt. The City's goal is to structure debt with declining debt service payments over the life of the debt portfolio as a whole, taking into consideration the forecasted revenues for the Debt Service Fund. The City should maintain a constant or declining debt service levy demand annually based upon existing and forecasted debt issuance. Utility revenue debt will generally be structured in a similar way, providing for a constant or increasing debt service coverage profile, when possible, except that repayment terms may be for a longer period of time due to the longer asset life of utility infrastructure improvements.

(b) Ten (10) years for most benefit district debt. Debt will be structured as set forth in Section 3.a.

(c) Ten (10) to twenty (20) years for capital improvements of citywide significance and where justified by the magnitude of the project.

(d) On an overall basis, it is the goal of the City that all general obligation debt, less temporary notes, be structured to retire at least eighty (80) percent of the City's indebtedness within ten (10) years, with a minimum of seventy (70) percent retiring within ten (10) years.

(e) The City shall ensure that it fully complies with all state and federal regulatory compliance, including post-issuance compliance related to continuing disclosure, maintenance of records, testing of ongoing compliance and arbitrage rebate.

(f) The City understands the importance of high credit quality to reducing its costs of debt issuance, and the City will maintain ongoing communications with the rating agencies, keeping them apprised of information central to the credit rating determination.

F. Fund Balance Reserves

1. The maintenance of adequate reserves is essential to meet cash flow requirements, provide flexibility for revenue and expenditure volatility, fund capital and equipment replacement, be

prepared for unanticipated expenses, as well as maintain compliance with debt covenants. Reserves are a significant factor considered in evaluating and assigning credit ratings by the bond rating agencies, and keeping adequate reserves ensure that the City is able to issue debt at a responsible interest rate.

2. In order to meet potentially unanticipated needs, it shall be the goal of the City to maintain the following reserves:

(a) General Fund. A minimum fund balance in the General Fund of 30% of annual revenues. Reserves in excess of 30% may be maintained to plan for future operational costs or utilized for one-time expenditures at the discretion of the City Council. Median data published by one of the rating agencies suggest fund balance levels of at least 40% of annual expenditures for those at or aspiring to receive a credit rating of AAA.

(b) Enterprise Fund. All enterprise funds should maintain a ninety (90) day reserve (measured against average daily operating expenses), as well as all reserves required by revenue bond indentures to remain in complete compliance with bond issue covenants.

(c) Debt Service Fund. The Debt Service Fund should reserve at least 10% of the annual principal and interest and capital improvement lease payments, with a target of 20%.

(d) Library Fund. The Library Fund is a property-tax supported fund and should maintain a minimum reserve of 15% of annual revenues,

(e) Internal Service Funds. Internal service funds, with the exception of the Risk Management Fund, should have a target reserve balance of 10% to 20% of annual expenditures.

(f) Risk Management Fund. The Risk Management fund will be reviewed on an annual basis and align with funding levels approved by the City Manager, after review of recommendations from the City Attorney, Human Resources Officer, and City Treasurer in cooperation with City's respective consultants.

(g) Capital Improvement Fund. A Capital Improvement Fund reserve will be reviewed in the annual capital improvement projects budget process as a source of cash funding capital projects or providing matching funds for grant-funded projects. The target reserve for the Capital Improvement Fund is 1% of the five-year average annual total project cost.

(h) Other Governmental Funds. All other governmental funds target reserve is 10% to 20% of annual expenditures.

3. The Governing Body may approve the use of budgeted reserves in the case of emergency events, unanticipated expenditure requirements, revenue fluctuations within a fiscal year, or to take advantage of an extraordinary opportunity.

4. The City desires to establish a fund balance classification policy consistent with the needs of the City, and in a manner consistent with governmental accounting standards. The following classifications serve to enhance the usefulness of fund balance information:

(a) Non-spendable: assets legally or contractually required to be maintained or are not in spendable form. Such constraint is binding until the legal requirement is repealed or the amounts become spendable.

(b) Restricted: assets with externally imposed constraints, such as those mandated by creditors, grantors and contributors, or applicable governmental laws and/or regulations. Such constraints are binding unless modified or rescinded by the applicable external body or applicable governmental laws, and/or regulations.

(c) Committed: assets with a purpose formally imposed by resolution by the Governing Body of the City, binding unless modified or rescinded by the Governing Body.

(d) Assigned: assets constrained by the expressed written intent of the City Council, City Manager, City Treasurer, or designee. Encumbrances shall be considered as assigned, unless they specifically meet the requirements to be committed or restricted.

(e) Unassigned: all amounts not included in other fund balance classifications. The General Fund shall be the only fund to report positive unassigned fund balance. All other governmental funds may report negative unassigned fund balance.

5. For unrestricted fund balance, committed amounts should be reduced first, followed by assigned amounts, followed by unassigned amounts.

6. Compliance with Sections F.4. and F.5. will be reviewed in conjunction with the annual budget process.

SECTION TWO: Resolution No. 20-1063 is hereby repealed.

SECTION THREE: This Resolution shall take effect

immediately.

ADOPTED by the Governing Body this ____ day of ____, 2024.

SIGNED by the Mayor this ____ day of ____, 2024..

Mayor

ATTEST:

City

Clerk

(SEAL)

APPROVED AS TO FORM:

City Attorney

Disclaimer: The City Clerk's Office has the official version of the Olathe City Council Policies. Users should contact the City Clerk's Office for resolutions passed subsequent to the resolution cited here.

City Website: www.olatheks.org

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