City Council Policy #36
Debt Management

Date Approved: July 3, 2000
Dates Amended: 10/4/2010; 4/7/2014; 12/17/2018; 12/21/2020; 012/18/2023

It is the policy of the City of Kirksville to abide by established debt control policies to provide assurance of the City's commitment to sound financial management and controlled borrowing practices and set parameters for issuing debt and managing the debt portfolio.

I. CAPITAL PLANNING

Capital improvement plans are prepared on a multi-year basis. These plans go through an annual review by the City Council in conjunction with the budget process. Financing needs are determined well in advance to identify all alternative sources of funding and locate the most cost-effective financing option for the City.

II. RESPONSIBILITY

It is the responsibility of the Finance Department to acquire the proper debt instrument and ensure the most cost-effective method of financing for the project. The City Council and City Manager will give the final approval on the acceptability of a financing arrangement.

The City will make all debt service payments when due on a timely basis, including all principal and interest payments, sinking fund payments, debt service reserve fund payments and payments for all other debt-related obligations.

III. NON-APPROPRIATION

All debt payments are subject to appropriation on an annual basis and must be approved in the budget process. All financing contracts contain a non-appropriation clause to recognize that the City cannot be obligated in subsequent years.

IV. PAY-AS-YOU-GO FINANCING

The City will pay for all equipment and infrastructure projects in cash if the applicable fund has an adequate cash flow and fund balance, project phasing is feasible and funding will not curtail operating or maintenance expenditures.

V. NON-DEBT CAPITAL FUNDING SOURCES

The City will normally rely on existing funds and project revenues to finance capital projects such as major maintenance, equipment acquisition, and small development projects. The City will strive to locate grants, matching fund programs, or low-interest loan programs to assist with the cost of capital projects.

VI. CAPITAL FINANCING

The City will utilize debt financing for one-time capital improvement projects when the project's useful life will exceed the term of financing and when project or specific revenues will be sufficient to service the long-term debt.

Bonds will be amortized within a period not to exceed the expected useful life of the asset being financed.

The City will confine long-term borrowing to capital improvements or infrastructure projects that cannot be financed from current revenues. Long-term debt will not be used for any recurring purpose such as current operating and maintenance expenditures or revenue shortfalls.

Capital improvements will be financed primarily through user fees, service charges, assessments, or special taxes attributable to that specific project.

Generally, the City will make a down payment to any project with an expected useful life of less than 10 years, rather than relying on 100% debt financing.

Debt issued by the City should be structured to provide for either level principal or level debt service. Deferring the payment of principal should be avoided except in cases where it will take time before project revenues are sufficient to pay debt service. Ascending debt service should generally be avoided.

Interfund borrowing will be considered to finance high-priority needs on a case-by-case basis and only when planned expenditures in the fund making the loan would not be compromised. Interfund borrowing may be used when it would reduce costs of interest, debt issuance, and/or administration.

The City will generally conduct financings on a competitive basis unless the nature of the project favors a negotiated financing. Should better rates become available on an existing conventional loan/lease, the City shall have the flexibility to refinance if analysis proves a cost savings without extending the length of the arrangement.

VII. DEBT STRUCTURE

The City is eligible to issue short-term debt which may include, but not be limited to: tax, revenue, grant, or bond anticipation notes; tax-exempt commercial paper; or variable rate notes when such instruments allow the City to accomplish capital acquisitions or projects.

The City may issue long-term debt which may include, but not be limited to: general obligation bonds, certificates of participation, revenue bonds, tax increment bonds, or variable rate notes. The City may also enter into long-term leases for public facilities, property, and equipment.

The type of debt to be issued will be determined per the following factors:

A. Direct and indirect beneficiaries of the project; a majority of the citizens should benefit from a project financed by general obligation bonds;
B. Time pattern of the stream of benefits generated by the project;
C. Alternative types of existing or potential user charges and the ability to generate revenue by controlling rates;

D. Effect of the proposed bond issue on the City's ability to finance future projects of equal or higher priority;
E. The interest costs and costs of issuance of each alternative type of issuance; and,
F. Impact of the issue on the City's financial position and credit rating.

VIII. RESTRICTIONS

General obligation bonds (authorized per RSMo 100.090) can only be issued after approval by the taxpayers through a public referendum. The City will try to keep the average maturity of general obligation bonds at or below 20 years. Current or advance refunding (replacement of outstanding debt with new debt issued at a lower interest rate) will be utilized when advantageous, legally permissible, prudent, and when a 5% net debt service savings are realized over the term of the debt.

General obligation debt per capita will not exceed $300.

The City will use special assessments, revenue bonds (MO Constitution article VI), and/or other available self-liquidating debt measures instead of general obligation bonds where and when possible and applicable.

Revenue bonds will be issued for revenue-producing facilities only. Rates charged for such operations shall be sufficient to generate a net income equivalent to 120% of the annual debt service obligation. The maximum permissible term for revenue bonds shall be twenty years.

Debt reserves equal to the next principal and interest payment shall be maintained (except for assessment debt).

Short-term debt instruments, i.e., tax and revenue anticipation notes, commercial paper, and variable rate demand bonds will be used in limited circumstances and only as interim financing sources.

Debt will be structured for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users.

IX. OVERLAPPING DEBT

Overlapping governments are other taxing jurisdictions that overlap the City's boundaries, thus exposing the City's taxpayers to taxation by other governmental entities. The City will strive to minimize the use of debt; it is recognized that the individual taxpayer must bear the burden of all overlapping jurisdictions, both for operating and capital purposes.

X. LEGAL DEBT MARGIN

Per State Statutes, general obligation bonds are subject to a legal debt limit of 20% of the City's portion of the assessed valuation of taxable property. This is outlined in Council Investment Policy.

XI. RATING

The City of Kirksville seeks to maintain the highest possible credit rating for all categories of short and long-term general obligation debt that can be achieved without compromising the delivery of basic City services and the achievement of adopted City policy objectives.

The City will not consider long-term debt that, through its issuance, would cause the City's bond rating to be lowered.

The City will maintain good communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus.

XII. LEASE FINANCING

The City will utilize capital leasing (per RSMo Ch. 432) arrangements to fund the purchase or construction of major capital items when necessary. Lease payments will be paid from the applicable operating revenues. Should better rates become available on an existing conventional loan/lease, the City shall have the flexibility to refinance if analysis proves a cost savings without extending the length of the arrangement.

XIII. BOND COUNSEL

The City will retain external bond counsel for all debt issuances to ensure compliance with applicable federal and state tax and other laws and regulations on public financing. No debt will be issued by the City without a written opinion by bond counsel.

XIV. FINANCIAL ADVISOR

The City will retain an external financial advisor, selected through a competitive process, to be utilized in selected debt issuances (Dodd-Frankl Wall Street Reform Act).

XV. ARBITRAGE

The City will follow a policy of full compliance with all arbitrage rebate requirements of the federal tax code and Internal Revenue Service regulations and will perform, as necessary, arbitrage rebate calculations for each issue subject to rebate on an annual basis. All necessary rebates will be filed and paid when due.

XVI. FINANCIAL DISCLOSURES

The City shall include the appropriate debt disclosures as required in the Official Statements, the Comprehensive Annual Financial Report (CAFR), and the annual budget.

XVII. RATE INCREASES

For any enterprise fund that is supporting debt, an annual rate study will be performed to ensure that the fees or rates are sufficient to meet the debt service requirements.

XVIII. LETTER OF CREDIT

Occasionally, a letter of credit is required from the City's depository bank to establish the availability of funds and a limit of funds dedicated to the specific project. The Finance Director will be responsible for acquiring the letter of credit and negotiating the terms.

XIX. CONDUIT FINANCING

The City may sponsor conduit financings for those activities, i.e., economic development, housing, etc., that have a general public purpose and are consistent with the City's overall service and policy objectives. All conduit financings must be structured to protect the City completely from any credit risk or exposure and must be approved by the City Manager before being submitted to the City Council for authorization and implementation.