

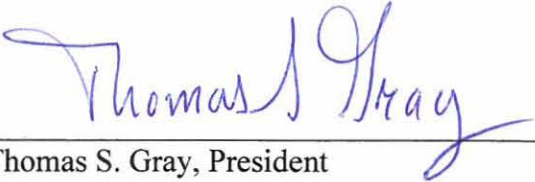
ORDINANCE NO. 14-17

AN ORDINANCE ESTABLISHING A DEBT MANAGEMENT  
POLICY

BE IT ORDAINED BY THE VILLAGE PRESIDENT AND BOARD OF TRUSTEES OF THE  
VILLAGE OF CHATHAM, SANGAMON COUNTY, ILLINOIS, AS FOLLOWS

Section 1: There is hereby adopted a Village of Chatham Debt Management Policy, a copy  
which is attached hereto as Exhibit A and herein incorporated by reference.

Section 2: This Ordinance is effective upon passage and approval.



Thomas S. Gray, President  
Village of Chatham

ATTEST:   
Pat Schad, Clerk

YEAS: 6 CLAYTON KIMSEY BOYLE HOLDEN  
FORMEA SCHATTEMAN

NAYS: 0

PASSED: 4-8-14

APPROVED: 4-8-14



## EXHIBIT A

### Village of Chatham

#### Debt Management Policy

##### **Purpose**

The Debt Management Policies set forth comprehensive guidelines for the financing of capital expenditures of the Village of Chatham. It is the objective of the policies that (1) The Village obtains financing only when desirable, (2) the process for identifying the timing and amount of debt or other financing be as efficient as possible and (3) the most favorable interest and other cost be obtained.

##### **Responsibility**

The primary responsibility for developing financing recommendations rests with the Chief Fiscal Officer.

In developing recommendations, the Chief Fiscal Officer shall be assisted by the Village Manager. As part of the annual budget process and updating of the Village's 5 year Capital Improvement Plan shall review the Village's financing needs.

##### **General Counsel and Bond Counsel Involvement**

The Village's General Counsel will issue an opinion as to the legality and tax exempt status of any obligation. The Village will seek the advice of Bond Counsel on bond and debt certificate financings. Bond Counsel is responsible for the preparation of the ordinance authorizing issuance of obligations and all of the closing documents to complete their sale and will perform other services as defined by terms agreed upon between the Bond Counsel and the Village.

##### **Financial Advisor Involvement**

The Village may seek the advice of a Financial Advisor when necessary. The Financial Advisor will advise on the structuring of the obligations to be issued, inform the Village of various options, advise the Village as to how choices will impact the marketability of Village obligations and will provide other services as defined by terms agreed upon between the Financial Advisor and the Village.

##### **Short Term Debt**

###### **General**

Short-term obligations may be issued to finance projects or portions of projects for which the Village ultimately intends to issue long-term debt; i.e., it will be used to provide interim financing which will eventually be refunded with the proceeds of long-term obligations.

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Short-term obligations may be backed with a tax or revenue pledge, or a pledge of other available resources.

Interim financing may be appropriate when timing of the financing is critical. Short-term obligations can often be obtained more quickly than long-term obligations and thus can be used in emergencies until long-term financing can be obtained. In addition, in some cases when the amount of financing required is relatively small, it may be cheaper for the Village to issue a small amount of short-term obligations to provide for its immediate needs than to issue a larger amount of long-term obligations to provide financing for both immediate and future needs when the carrying costs of issuing obligations which are not immediately needed are taken into account.

### Line of Credit

With the approval of the Village Board, the Village may establish a tax-exempt line of credit with a financial institution selected through a competitive process. Draws shall be made on the line of credit when (1) the need for financing is so urgent that time does not permit the issuance of a long-term debt, (2) the need for financing is so small that the total cost of issuance of long-term debt including carrying costs of debt proceeds not needed immediately is significantly higher, and (3) the need to supplement the cash flows of the Village.

### Long Term Debt

Long-term obligations will not be used for operating purposes and the life of the obligations will not exceed the useful life of the projects financed, but in any case no longer than 30 years. Long-term debt may be used for extraordinary expenses or for large capital projects.

Level or declining debt service shall be employed unless operational matters dictate otherwise, or except to achieve overall level debt service with existing bonds. The Village may choose to delay principal payments or capitalized interest during project construction.

The cost of issuance of private activity bonds is usually higher than for governmental purpose bonds. Consequently, private activity bonds will be issued only when they will economically benefit the Village.

The cost of taxable debt is higher than for tax-exempt debt. However, the issuance of taxable debt is mandated in some circumstances and may allow valuable flexibility in subsequent contracts with users or managers of the improvement constructed with the bond proceeds. Therefore, the Village will usually issue obligations tax exempt, but may occasionally issue taxable obligations.

### Revenue Bonds

The Village shall seek to finance the capital needs of its revenue producing enterprise activities through the issuance of Alternate Revenue-debt obligations. Prior to issuing Alternate

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Revenue-debt obligations, the Village will review financial plans and projections showing the feasibility of the planned financing, required rates and charges needed to support the planned financing and the impact of the planned financing on rate payers, property owners and the other affected parties. If it is not feasible to issue an Alternate Revenue obligation, then a revenue-secured debt obligation should be considered.

### **Negotiated versus Competitive Sale versus Competitive Private Placement**

When feasible and economical, obligations shall be issued by utilizing a competitive private placement with a local financial institution. Since no underwriter participates in a private placement, it may result in lower costs of issuance. Private placement is usually an option for small issues. The opportunity may be identified by the Bond Counsel or Financial Advisor. The Village may also use a competitive sale thru an underwriter for larger bond issues or if it is cost beneficial.

A sale may be negotiated when the issue is predominantly a refunding issue or in other non-routine situations which require more flexibility than a competitive offer allows. Whenever the option exists to offer an issue either for competition or for negotiation, analysis of the options shall be performed to aid in the decision-making process. When a sale is not competitively bid, the Village will publicly present the reasons and will participate with the Bond Counsel or Financial Advisor in the selection of the direct purchaser.

### **Ratings**

At this time the Village does not solicit a bond rating. Currently the Village's long term financing needs are met using local financial institutions.

If in the future the Village decides to enter into financing that requires a debt rating the Village will strive to maintain a A/A2 to A+/A1 rating.

### **Refunding**

The Village shall consider refunding debt for the sole purpose of present value savings whenever an analysis indicates the potential for present value savings of approximately 3 to 5% of the principal being refunded.

However refunding issues may be refunded and not subject to the above percentages if additional borrowing for a project is determined necessary and an existing issue will be refunded and replaced with a new issue including additional project costs as long as there is an overall interest savings.

Depending on the time to maturity and the absolute level of interest rates of the refunding candidate this target may change. For longer maturities the target can be higher, for shorter maturities, lower. For higher interest rates the target may be higher, for lower rates it could be lower.

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### **Capital Leasing**

Capital leasing is an option for the acquisition of a piece or package of equipment costing less than \$500,000. The maximum term of a capital lease shall not exceed the useful life of the asset. The Village shall obtain at least two competitive proposals for any major lease financing. The lease shall be awarded to the institution providing the best interest rate.

### **Interfund Debt**

From time to time it may be necessary for one fund of the Village's funds to provide a loan to another fund of the Village. If this occurs the Administration committee of the Village Board will be advised. The loan will be included in the Village's final appropriation ordinance and will be reported on the Due to/Due from statement included in the Treasurers Monthly Report.

### **Use of Derivatives**

The Village of Chatham does not utilize derivatives as a financing method.

### **Debt Limits**

Because the Village of Chatham is a non-home rule entity it is limited to the statutory debt limitation of 8.625% of the Village's assessed valuation.

### **Investment of Bond Proceeds**

The investment of bond proceeds will be dictated by the bond ordinance and state statutes.

The Chief Fiscal Officer, Bond Counsel and or Financial Advisor will prepare the cash flow requirements for the bond proceeds and shall be used as a guide in structuring the maturity of the bond proceeds portfolio.

Debt covenants and arbitrage requirements will be designed to maintain compliance with both debt and investment policies with any arbitrage liability adjusting net investment income in the year in which the liability was incurred.

Debt service reserve funds shall be maintained and invested, as applicable, in compliance with the debt agreements.

### **Modification To Policies**

These policies will be reviewed periodically and minor changes may be made with the approval of the Village Manager. Significant policy changes will be presented to the Village Board for confirmation.