CITY OF LAKE ELMO
DEBT MANAGEMENT POLICY

PURPOSE

The use of borrowing and the issuance of debt is an important and flexible revenue source available to the City of Lake Elmo. It is important the City maintain a debt management policy. The issuance of debt is a mechanism which allows capital improvements to proceed when necessary and in advance of when it may otherwise be feasible. It can reduce long-term costs due to inflation, prevent lost opportunities, and equalize the costs of improvements to present and future property owners and customers of the City.

Debt management is an integral part of the overall financial management of the City. Adequate financial resources must be provided for the repayment of debt, and the level of debt incurred by the City must be effectively controlled to amounts that are manageable and within levels that will maintain and/or enhance the City's credit rating. A goal of debt management is to stabilize the overall debt burden and future tax levy requirements to ensure that issued debt can be repaid and prevent default on any municipal debt. A debt level which is too high places a financial burden on taxpayers and can create challenges for the local economy as a whole.

POLICY STATEMENT

Fiscally prudent and managed use of debt provides financial and operating advantages. Extensive use of debt places a burden on the fiscal resources of the City and its taxpayers. The City strives for a balanced approach to the use of debt. The following guidelines provide a framework and limit on debt utilization:

1. The City will maintain a Five-Year Capital Improvement Plan (CIP). The CIP will include source and use of funds.
2. The City will restrict long-term borrowing to planned capital improvements, as included in the CIP, and a limited use of short-term debt for capital outlay and acquisition. On all projects, at least 50% of the principal will be retired within 10 years.
3. The City will not use long-term debt for current operations.
4. The City will strive to maintain a "pay-as-you-go" capital funding policy, supporting capital spending without use of debt whenever feasible. The City will strive to pay cash for capital projects that can be anticipated and planned for in advance. Where possible, the City will use special assessment, revenue or other self-supporting bonds instead of General Obligation Bonds.

5. The City recognizes that for certain projects that the use of debt may be of overall financial benefit to the City and that all projects should be evaluated to determine whether debt financing is the appropriate choice at the time of authorization.
6. The City will pay back debt within a period not to exceed the expected useful life of the projects, typically at or below 20 years.
7. Direct net debt (gross debt less available debt service funds) shall not exceed 3 percent of the total market valuation of taxable property in the City.
8. The City will manage debt issuance plans and structuring of debt service to strive to maintain a total debt service levy that is less than 25% the City's total combined certified property tax levies.
9. The City will maintain good communications with bond rating agencies regarding its financial condition. The City will follow a policy of full disclosure in every financial report and bond disclosure document.
10. When feasible the City will use refunding mechanisms to reduce interest cost and evaluate the use of debt reserves to lower overall annual debt service where possible.
11. During the annual budget process, a debt study will be prepared in conjunction with the CIP to provide information about the City's planned debt structuring. The annual debt study shall include at a minimum:
    a. Future estimated total debt outstanding, including both existing debt and planned new debt issuance, by type of debt (general obligation, revenue, etc.)
    b. Annual estimated sources of revenue by type (i.e., property tax levy, special assessments, utility revenue, etc.) for payment of debt service (principal and interest), for both existing debt and planned new debt.
12. Refunding and advance refunding savings opportunities will be monitored by the Finance Department and the City's financial advisor and action will be taken when determined financially advantageous. Net Present Value debt service savings of a minimum of three percent (3%) will be the target savings threshold. Refunding at the time of the call or in advance of the call may be considered from time to time to remove restrictive covenants of revenue bond issues.