SECTION 6. DEBT MANAGEMENT

The use of borrowing and debt is an important and flexible revenue source available to the City. Debt is a mechanism which allows capital improvements to proceed when needed, in advance of when it would otherwise be possible. It can reduce long-term costs due to inflation, prevent lost opportunities, and equalize the costs of improvements to present and future constituencies.

Debt management is an integral part of the financial management of the City. Adequate 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 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 problems for the community's economy as a whole.

The goal of the City is consistent and ongoing reduction in outstanding debt in order to realize a total debt at t or below $20 million by 2035. With Legislative the adoption of the local sales tax to fund street improvement projects the intent is to provide for reconstruction of regional and critical roadway infrastructure on a "pay as you go" basis in order to avoid G.O. debt issuance to the extent possible and practicable. The new capital plan leverages annual sales tax revenues and Minnesota State Aid allocations with City Local Government Aid, electric/gas franchise fees, and benefit assessments to accomplish this goal.

City Charter VII: Section 7.12-14, City Indebtedness

Except as provided in Sec. 7.13 and 7.14, debt issued pursuant to Minnesota Statutes Chapter 429, Capital Note debt, revenue bonds or debt for the construction of public facilities that are necessary for the essential functions of the City, no obligations shall be issued to pay current expenses but the Council may, when authorized to do so by a majority of the electors of the City voting thereon at a general or special election, issue and sell obligations for any other municipal purpose in accordance with law and within the limits prescribed by law.

Tax Anticipation Certificates. At any time after January 1, following the making of an annual tax levy, the Council may issue certificates of indebtedness in anticipation of the collection of taxes levied for any fund and not yet collected. The total amount of certificates issued against any fund for any year with interest thereon until maturity shall not exceed 50% of the total current taxes for the fund uncollected at the time of issuance plus the cash on hand in the fund. Such certificates shall be issued on such terms and conditions as the Council may determine but they shall become due and payable not later than the last day of the year of their issuance. The proceeds of the tax levied for the fund against which tax anticipation certificates are issued and the full faith and credit of the City shall be irrevocably pledged for the redemption of the certificates in the order of their issuance against the fund.

Sec. 7.14. Emergency Debt Certificates. If in any year the receipts from taxes or other sources should from some unforeseen cause become insufficient for the ordinary expenses of the City; or if any calamity or other public emergency should subject the City to the necessity of making extra-ordinary expenditures, the Council may by ordinance, issue and sell certificates. A tax sufficient to pay principal and interest on such certificates with the margin required by law shall be levied as required by law. The ordinance authorizing an issue of such emergency debt certificates shall state the nature of the emergency and be approved by at least five members of the Council. It may be passed as an emergency ordinance.

Policy Statement

Wise and prudent use of debt provides fiscal and service advantages. Overuse of debt places a burden on the fiscal resources of the City and its taxpayers. The following guidelines provide a framework and limit on debt utilization:

1. The City will weigh the benefits and costs of long-term borrowing for planned capital improvements (see CIP Policy) and short-term debt for capital outlay. Street improvement projects will not utilize debt to the extent practicable and possible until the Legislatively authorized local sales tax has been unallocated.
2. The City should strive to avoid using long-term debt for current operations.
3. When considering financing of capital expenditures, the City may consider paying cash for capital financing as well as debt financing.
4. The City will pay back debt within a period not to exceed the expected useful life of the projects, with at least 50% of the principal retired within 2/3 of the term of the bond issue.
5. 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 prospectus.
6. The City (by itself or with a financial advisor) will track and identify opportunities for restructuring or refinancing debt.
7. 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.
   The City's goal has been to quantify the impact of potential future debt on the debt service levy, and on various categories of property taxpayers (or other revenue derived customers).
8. Monitor trends of key financial, economic, and debt ratios such as:
   i. Taxable market value per capita
   ii. Available General fund balance compared to annual General fund expenditures
   iii. Annual debt service for general obligation direct debt to total general expenditures
   iv. Direct general obligation debt and obligations as a percentage of taxable market value
   v. Overall general obligation debt and obligations per capita
   vi. The City will work toward an outstanding debt balance of $20 million or less.

During the budget process, the Council may review whether a debt study is necessary to be prepared in conjunction with the Capital Improvements Plan to provide information about the