Commission Policy

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Authority:	Statute: Resolution: 00-060-4, 02-136-7, 11-053-3, 16-151-11	Date Issued: 04/24/00 Date Revised: 7/22/02 Date Revised: 3/28/11 11/28/16

I. **Introduction**

This document sets forth the policy considerations for Commissioners and staff to follow in the issuance of debt and management of the debt portfolio. Adherence to a debt policy helps to ensure that the District maintains a sound debt position and that its credit quality is protected. It is important to recognize that access to capital markets over the long term depends upon the District's unwavering commitment to full and timely repayment of all debt.

II. **Purposes for Which Debt May be Issued**

The District may issue general obligation bonds and notes or revenue obligation bonds and notes for purposes of financing its capital improvements program or to refund its bonds or notes. The capital improvements program incurs capital costs to acquire, purchase, add to, lease, plan, design, construct, extend and improve all or any part of the sewerage and drainage system of the District and to make payments of principal, interest or premiums on any indebtedness incurred for these purposes.

Although the District has the statutory authority to issue revenue bonds and notes to finance operation and maintenance of its sewerage and drainage system, the District does not intend to issue revenue bonds and notes for operations or maintenance purposes. The District will maintain adequate working capital to meet the cash needs of its operations and maintenance budget.

III. **Debt Limitations**

Section 67.03 of the Wisconsin Statutes requires that general obligation debt outstanding not exceed 5% of the equalized valuation of the taxable property within the District. Revenue bonds and notes are not considered debt for purposes of determining compliance with constitutional debt limitations.

The District intends to keep outstanding general obligation debt within 50% of the limit prescribed by law and at levels consistent with its credit objectives and long-range financing plan. Annual debt service requirements anticipated in the long-range plan are funded from the tax levy and other revenues, including available funds on hand.

IV. Types of Debt and Structural Features

The District has authority under Section 200.55 of the Wisconsin Statutes to finance capital improvements through the issuance of debt instruments, including:

- General obligation bonds and promissory notes;
- Bond anticipation notes; and
- Revenue obligation bonds and notes

Even though the District also has authority to issue revenue obligations, the District shall issue general obligation bonds and notes to finance the capital improvements program, unless staff can demonstrate to the Commission that other, statutorily authorized debt instruments provide the District with a financial advantage.

Maturity of Debt. Staff shall utilize the following considerations in structuring debt maturities:

- long-range financing objectives;
- the useful life of the project assets to be financed; and
- a fair allocation of project costs to current and future customers benefiting from the project.

Fixed and Variable Rate Debt. The District intends to issue debt on a fixed- rate basis. Staff, however, may propose that the District issue securities that pay a variable rate of interest determined in accordance with a pre-determined formula or that results from a periodic remarketing of the securities, consistent with State law and covenants of pre-existing bonds, and depending on market conditions.

The District will have no more than 15% of its outstanding general obligation bonds in variable- rate form.

V. Credit Objectives

The District will seek to maintain or improve its current credit rating with Moody's Investors Service (Aaa), Standard & Poor's (AA+), and Fitch Investors Service (AAA). The District will strive to maintain good relations with the rating agencies, routinely communicating with the rating agencies and keeping them informed of significant developments that could affect the District's credit rating.

In order to achieve its credit rating objective, the District recognizes the need to integrate debt policy with its six-year capital improvements program and long-range financing plan. The District will also consider the debt marketing plans of other governmental units located within the District's boundary as provided in Section 200.55 (7) of the Wisconsin Statutes.

The following objectives for the District's capital improvement program and financing plan will be used to maintain debt service requirements at affordable levels and enhance the credit quality of the District:

- At least 25% of project expenditures shall be cash financed over the 6-year financing plan.
- Changes to the annual tax levy throughout the long-range plan shall be limited to amounts that are necessary, affordable, and allow for tax levy stability into the future.
- Responsible drawdown of accumulated reserve funds in a manner that does not cause destabilizing annual fluctuations in the tax levy.
- Flexibility to fund future expenditures necessary to fulfill the District's responsibilities.

VI. Method of Sale

Public Sale. With the exception of Clean Water Fund Program loans and Commission-authorized private sales, the District will issue debt by public sale, through a competitive bidding process. Bids will be awarded on a true interest cost basis (TIC), provided that other bidding requirements are satisfied. In those instances in which staff believes competitive bidding produced unsatisfactory bids, the Commission may authorize staff to negotiate the private sale of the securities.

Direct Sale to State of Wisconsin. Debt sold directly to the State of Wisconsin will be used when the District undertakes capital projects that are eligible to receive below-market rate loans from the State of Wisconsin Clean Water Fund Program. These loans may finance projects for maintaining permit compliance, nonpoint source pollution control, or stormwater control. District issued general obligation promissory notes, structured as 20-year level debt service, and are sold directly to the State of Wisconsin, with the District's obligation to repay the loan secured by the pledge of *ad valorem* taxes.

Private Sale. Private sales of debt (including a negotiated sale to an underwriter or a private placement to an investor) will be considered in circumstances when doing so is expected to result in a better outcome for the District than a public sale, such as when the complexity of the issue requires specialized expertise such as an advanced refunding to restructure debt service, when time to complete a sale is critical, when there is strong evidence that a negotiated sale would result in substantial cost savings, or when market conditions or the District's credit are unusually volatile or uncertain. If the Commission authorizes the private sale of bonds or notes, the Commission shall specify in its minutes the reasons for its decision to authorize private rather than public sale as required by Section 200.55 (2) of the Wisconsin Statutes.

Approval of Sale. Commission approval of the debt sale shall comply with the affirmative vote requirements of Section 200.27 (2) of the Wisconsin Statutes and Commission Policy 1-15.02, "Capital Budget."

VII. Selection of Outside Financial Consultants

The ~~Controller~~Director of Finance/Treasurer shall be responsible for establishing a solicitation and selection process for securing outside professional services necessary to develop and implement the District's debt program. Selection of outside financial advisors, bond counsel, and underwriters and other service providers will comply with District procurement policies and state law. Section 200.57 (2) of the Wisconsin Statutes requires the Commission to attempt to ensure that 5% of the total funds expended for financial advisory services and investment analysis shall be expended for the services of minority financial advisors.

VIII. Refundings

Periodic reviews of outstanding debt will be undertaken to determine refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding or the refunding is essential in order to update covenants essential to operations and management.

In general, advance refundings for economic savings will be considered when net present value savings of at least 2% of the refunded debt can be achieved. Current refundings that produce net present value savings of less than 2% will be considered on a case-by-case basis. Advance refundings with less than 2% savings may be considered when the Commission determines that there is a compelling public policy or long-range financing policy objective.

IX. Disclosure

The District is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional investors, other units of government, and the general public to share clear, comprehensible, and accurate financial information.

The Accounting Department shall be responsible for providing ongoing disclosure information to established national information repositories and for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies.

X. Investment of Bond Proceeds

Investment of bond proceeds shall comply with Commission Policy 1-73.17, "Investment Policy".

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XI. <u>Tax Compliance</u>

The Accounting Department shall maintain a system of record keeping and reporting to meet the compliance requirements of the federal tax code, including without limitation the requirements concerning arbitrage and arbitrage rebate, private business use, and accounting and allocation.