RESOLUTION NO. 2018-004

RESOLUTION OF THE VILLAGE OF MONTGOMERY, ILLINOIS ADOPTING A DEBT MANAGEMENT POLICY

WHEREAS, the Village of Montgomery ("Village") desires to obtain financing only when necessary, establish conditions to obtain financing at the lowest cost, retain the highest practical credit rating, and to maintain full and complete financial disclosure and reporting; and

WHEREAS, the Illinois Bond Authorization Act (30 ILCS 305) allows for the issuance of bonds by cities and villages; and

WHEREAS, the Illinois Municipal Code (65 ILCS 5/8-5-1) subjects cities and villages to a legal limitation of general obligation bonded debt; and

WHEREAS, the Village will regularly review existing policies and establish additional policies to promote fiscal responsibility and the efficient transaction of Village business; and

WHEREAS, the Village is an Illinois municipal corporation and a non-home rule unit of government under the Illinois Constitution, Article VII, Section 7, and accordingly, is a public body subject to these provisions; and

WHEREAS, the Village Board finds it in the best interest of the citizens to establish policies to ensure the financial stability of the Village.

NOW, THEREFORE, BE IT RESOLVED by the Village President and the Board of Trustees of the Village of Montgomery, Kane and Kendall Counties, Illinois, as follows:

Section One: Incorporation of Preambles

The Board hereby finds that all of the recitals contained in the preambles to this Resolution are full, true and correct and does incorporate them into this Resolution by this reference.

Section Two:

The Debt Management Policy attached as Exhibit A to this resolution, incorporated herein by reference, is hereby adopted.

Section Three: General Provisions

REPEALER: All ordinances, resolutions, policies, or portions thereof in conflict with this resolution are hereby repealed.

SEVERABILITY: Should any provision of this Resolution be declared invalid by a court of competent jurisdiction; the remaining provisions will remain in full force and effect the same as if the invalid provision had not been a part of this Resolution.

EFFECTIVE DATE: This Resolution shall be in full force and effect from and after its approval, passage and publication in pamphlet form as provided by law.

PASSED AND APPROVED by the President and Board of Trustees of the Village of Montgomery, Kane and Kendall Counties, Illinois, this 12th day of February, 2018.

Matthew Brolley
President of the Board of Trustees of the Village of Montgomery

ATTEST:

Penny Fitzpatrick
Clerk of the Village of Montgomery

VILLAGE OF MONTGOMERY, ILLINOIS VILLAGE SEAL KANE & KENDALL COUNTIES

	Aye	Nay	Absent	Abstain
Trustee Stan Bond	✓			
Trustee Peter Heinz				✓
Trustee Steve Jungermann	✓			
Trustee Dennis Lee	✓			
Trustee Douglas Marecek	✓			
Trustee Theresa Sperling	✓			

Village of Montgomery, Illinois
Debt Management Policy

I. Purpose

The purpose for the debt management policy is to provide a general framework for the use, management, and reporting of the Village of Montgomery's debt financing. It is the objective of the policy for the Village to obtain financing only when necessary, establish conditions to obtain financing at the lowest cost, retain the highest practical credit rating, and to maintain full and complete financial disclosure and reporting. In addition to adherence to this policy, the Village's financing will also be in compliance with applicable Federal law, U.S. Securities and Exchange Commission (SEC) regulations, and Illinois Compiled Statutes (ILCS).

This policy provides a functional tool for debt management, as well as, enhance the Village's reputation for managing its debt in a conservative and prudent manner. Adherence to the policy is essential to ensure the Village maintains a sound financial position and protects the credit quality of its obligations.

II. Scope

This policy will be all-inclusive of debt issued by the Village including, but not limited to, general obligation bonds, revenue bonds, alternate revenue source bonds, debt certificates, installment contracts, leases, special service area bonds, special assessment bonds, working cash bonds, tax anticipation warrants, tax anticipation notes, revenue anticipation notes, and tax increment bonds. In addition, refunding bonds may be issued and can save municipalities interest costs. In addition, this policy contains certain elements on procedures and practices to achieve the objectives of the policy and to ensure professional standards are defined and met in the policy's implementation.

III. Legal and regulatory requirements

A. Federal: The Internal Revenue Code (IRC) of 1986 as amended and its arbitrage and rebate regulations govern the tax-exempt status of municipal bonds. Upon issuance of any municipal bonds, the Village will covenant to follow certain federal rules and regulations in order to maintain the tax-exempt status of the bonds. To receive these benefits, the Village must ensure that the requirements under the IRC are met, generally for as long as the bonds remain outstanding.

   These requirements include, but are not limited to:

   1. File Internal Revenue Service (IRS) Form 8038-G, *Information Return for Tax-Exempt Governmental Obligations* ($100,000 or greater) or Form 8038-GC, *Information Return for Small Tax-Exempt Governmental Bond Issues, Leases, and Installment Sales* (less than $100,000);
   2. Bond proceeds must be used to finance activities of, or facilities owned, operated or used by, the issuer for its purpose or another state or local government for its own purposes;
   3. Allocate to expenditures not later than 18 months after the later of the date each expenditure is paid or the date the project, if any, that is financed by the issue is placed in service; and

III. Legal and regulatory requirements (continued)

4. Rebate to the IRS for investments earning a yield materially higher than the yield of the bond issue (arbitrage).

B. U.S. Securities and Exchange Commission (SEC): Congress passed the Securities Act of 1933 with the objective of providing investors full disclosure of material facts about securities offered and sold. In 1934, Congress passed the Securities Exchange Act of 1934 that created the Securities and Exchange Commission (SEC) and empowered the SEC with broad authority over most aspects of the securities industry. Although municipal securities are exempt from many of the requirements, the Village is still subject to:

1. Rule 10b-5 of the Securities Exchange Act of 1934: Sets out the general statement of federal intent to protect investors against misleading statements or omissions of important facts in official statements or other documents pertaining to the bond issuance; and
2. Rule 15c2-12 of the Securities Exchange Act of 1934: Governs the preparation and distribution of official statements for municipal securities and meeting continuing disclosure requirements.

C. State: The Illinois Compiled Statutes (ILCS) authorize and govern the issuance of municipal bonds. The key laws include, but are not limited to:

1. The Bond Authorization Act (30 ILCS 305) allows for the issuance of bonds by cities and villages.
2. The Illinois Municipal Code (65 ILCS 5/8-5-1) subjects cities and villages to a legal limitation of general obligation bonded debt based on 8.625% of the total assessed value of real estate property.
3. The Local Government Debt Reform Act (30 ILCS 350/15) allows for the issuance of alternate bonds in lieu of revenue bonds. In addition, alternate bonds are not subject to the legal limitation noted above.
4. The Illinois Property Tax Extension Limitation Law (35 ILCS 200/18-185) allows the issuance of an amount of general obligation bonds equal to the aggregate extension for principal and interest payments for non-referendum bonds that cities or villages issued prior to January 1, 1997 (debt service extension base). The following bonds are not subject to PTELL limitations:
   a. Alternate bonds; and
   b. Refunding obligations issued to refund or to continue to refund operations initially issued pursuant to referendum.
5. The Bond Issue Notification Act (30 ILCS 352) requires non-home rule cities and villages proposing to sell non-referendum general obligation bonds to hold a public hearing concerning its intent to issue such bonds.

IV. Guidelines for use

This policy establishes standards to help determine whether debt is an appropriate option as shifting circumstances arise over time. Debt is a financing tool which should be thoughtfully used and will be considered when some or all of the following conditions exist:

A. Adequate resources – future revenues sufficient to cover debt service;
B. Characteristics – project represents one-time investment (e.g. building) rather than ongoing operations (e.g. maintenance of building);
C. Favorable market conditions – interest rates and construction costs are reasonable;
D. Intergenerational equity – help distribute costs and benefits of capital asset over its useful life;
E. Length of issuance – term of financing will not exceed expected life of capital asset;
F. Mandates – improvements required by federal or state authorities;
G. Options – other financing has been explored and is not viable for the timely acquisition or completion of a capital asset; and
H. Within financial limits – consistent with federal, state, and local regulations.

V. Types of debt

The Illinois Municipal Code 65 ILCS 5/8-4.1-2 defines bonds as, "any instrument evidencing the obligation to pay money authorized or issued by or on behalf of a municipality under Applicable Law including, without limiting the generality of the foregoing, bonds, notes, installment or financing contracts, leases, certificates, tax anticipation warrants or notes, vouchers, or any evidence of indebtedness."

The types of debt permitted by the Village to meet its financing objectives includes, but is not limited to:

A. General obligation bonds – financing secured only by the full faith and credit of the Village;
B. Alternate bonds – financing secured by a defined source of revenue (not property tax) and the full faith and credit of the Village;
C. Revenue bonds – financing secured only by a defined source of revenue (not property tax);
D. Capital leases – financing of a vehicle or equipment over time with a provision to transfer ownership at a nominal amount at the termination of the lease;
E. Loans – federal and state low interest financing secured by a defined source of revenue (not property tax) typically used for water and wastewater projects; and
F. Other – special circumstances may exist when other forms of debt are appropriate, necessary, and advantageous to the Village.

State and local governments receive tax benefits under the Internal Revenue Code that lower borrowing costs on their bonds. Bondholders are willing to accept a lower interest rate because interest paid to bondholders on these obligations is not includable in their gross income for federal income tax purposes. The Village will generally issue tax-exempt bonds. However, the Village may occasionally issue taxable bonds which have a higher interest rate.

V. Types of debt (continued)

In addition, the Village shall be mindful of the potential benefits of bank qualified bonds. This designation is given to a bond issuance if the Village reasonably expects to issue in the calendar year of such offering no more than $10 million of bonds. When purchased by a commercial bank for its portfolio, the bank may deduct a portion of the interest cost of carry for the position. Therefore, the Village will strive to limit its annual issuance of bonds to $10 million or less, as amended from time to time, when the estimated benefits are greater than the benefits of exceeding the bank qualification limit.

The Village shall not be permitted to use derivative instruments including interest rate swaps, forward swaps, swap options, basis swaps, caps, floors, collars, rate locks, cancellation options or any similar hedge, derivative, or synthetic instrument.

VI. Standards of Care

A. Prudence: Debt shall be issued with judgment and care under the circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs. The standard of prudence to be used by debt management officials shall be the "prudent person" standard and shall be applied in the context of managing an overall debt portfolio. Village officers and employees acting in accordance with this policy, and any other written procedures, and exercising due diligence shall be relieved of personal liability, provided that officers and employees report deviations from expectations in a timely fashion and take appropriate action to control adverse developments.
B. Maintaining the Public Trust: All participants in the debt management process shall seek to act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence in the Village.
C. Ethics and Conflicts of Interest: Officers and employees of the Village who are involved in the debt management process shall refrain from personal business activity that could conflict with proper execution and management of the debt program, or which could impair their ability to make impartial decisions. Employees and officials shall disclose to the Board any material interests in financial institutions with which they conduct business.

VII. Structuring practices

The duration of a bond issue shall not exceed the economic or useful life of the improvement or asset that the issue is financing. The Village shall design the financing schedule and repayment of bonds to take best advantage of market conditions and, as practical, to recapture or maximize its credit capacity for future use, and moderate the impact to the taxpayer.

A. Maturity guidelines
    1. Governmental activities – maturity limited to twenty years
    2. Business-type activities – maturity limited to forty years

VII. Structuring practices (continued)

B. Debt service schedule
1. A level or declining debt service schedule will be employed unless operational matters dictate otherwise, or except to achieve overall level debt service with existing bonds.
2. The Village will use the debt service schedule which will best fit with the overall debt structure of the Village's bonds at the time the new bonds are issued.
3. Consideration will be given to coordinating the length of the issue with the lives of assets, whenever practicable.

C. Use of credit enhancements
Credit enhancements are mechanisms which guarantee principal and interest payments. The Village may enter into agreements with commercial banks or other financial entities to acquire letters of credit, municipal bond insurance, or other credit enhancements that will provide the Village with access to credit under terms and conditions as specified in such agreements, when their use is judged cost effective or otherwise advantageous. A credit enhancement, while costly, will usually bring a lower interest rate on bonds and a higher rating from the rating agencies, thus lowering overall costs.

D. Use of redemption features
A call option, or optional redemption provision, gives the Village the right to prepay or retire bonds prior to their stated maturity. These prepayment provisions are structured into the original bond issuance to provide the Village an opportunity to manage its debt portfolio. The exercise of these prepayment provisions is through the issuance of refunding bonds. Bonds can be refunded to achieve one or more of the following objectives:
1. Reduce future interest costs – shall be at least 2% present value savings for current refunding and at least 3% present value savings for advance refunding;
2. Restructure future debt service in response to evolving conditions regarding anticipated revenue sources;
3. Alter bond characteristics, such as call provisions or payment dates, on existing bonds; and
4. Change the legal requirements, termed covenants, of the original issue to reflect more closely the changing conditions of the Village or the type of bond.

VIII. Debt issuance process

A. Approval of issuance – The Village Board shall adopt an ordinance authorizing the issuance of bonds.

B. Method of sale
The Village will select the method of sale which best fits the type of bonds being sold, market conditions, and the desire to structure bond maturities to enhance the overall performance of the debt portfolio. The general methods for the sale of municipal bonds include:
1. Competitive sale – Bonds are marketed to a wide audience of investment banking firms (underwriting). Their bids are submitted electronically at a specific time and the bonds will be sold to the bidder proposing the lowest true interest cost (TIC).

VIII. <u>Debt issuance process (continued)</u>

2. Negotiated sale – The Village will negotiate all rates and terms of the sale with an underwriter who is selected in advance of the bond sale.
3. Private placement – The Village sells its bonds to a limited number of sophisticated investors, but not the general public.

C. Selection and use of professional service providers

The Village will procure professional services as needed to successfully authorize, structure, and market bonds due to the complex nature of the transactions. These professional service providers may include arbitrage consultants, bond counsel, escrow agents, financial advisors, paying agents, underwriters, and verification agents.

1. Financial Advisor

   The Financial Advisor will recommend the financing structure; prepare and review preliminary and official statements; review ordinances concerning the authorization and award of financing; assist the Village in developing and presenting information to rating agencies; provide the electronic bidding platform; and provide assistance with the closing and delivery of securities. To ensure independence, the Financial Advisor will not bid on or underwrite any Village bond issues on which it is advising.

2. Bond Counsel Involvement

   Bond Counsel will prepare and review the ordinances authorizing and awarding the bonds; provide a written opinion regarding the validity and binding effect of the bonds; determine the federal tax status of any bonds; and prepare bound official transcripts related to the authorization, offering, sale and delivery of the bond issue. The Village will also seek assistance from Bond Counsel on other types of debt financing, as well as on any questions involving federal tax or arbitrage law. To ensure independence, Bond Counsel will not simultaneously represent any other party involved in the financing unless a conflict waiver is obtained from the Village.

D. Credit ratings

The Village may seek a rating on all new bond issues being sold in the public market. Municipal bond ratings determine the amount of investment risk and interest cost on bonds used for financing Village projects. These ratings assess several factors including, but not limited to, current state of the economy, debt structure, financial condition, and management practices. The Village will use both formal and informal methods to disseminate information and communicate with the rating agencies as follows:

1. Full disclosure of the financial condition of the Village on an annual basis;
2. Formal presentation on a regular basis covering economic, financial, operational, and other issues that impact the Village's credit;
3. Disclosure of financial events that may impact the Village's credit;
4. Dissemination of the Comprehensive Annual Financial Report (CAFR); and
5. Distribution of any documents pertaining to the sale of bonds.

IX. Debt management process

A. Investment of proceeds

1. General – The Village acknowledges its ongoing fiduciary responsibilities to actively manage the proceeds of bonds issued for public purposes in a manner that is consistent with the Village's investment policy, Illinois statutes that govern the investment of public funds, and consistent with the covenants of related bond documents. The investment of bond proceeds requires significant diligence in meeting the objectives of regulatory compliance, management of the covenants described in financing documents, and the needs of the projects being funded.

2. Refunding escrow – The Village shall utilize State and Local Government Series (SLGS) securities program for the refunding escrow unless otherwise justified and deemed necessary. SLGS are special low-interest bearing U.S. Treasury securities offered to tax exempt entities for the investment of bond proceeds. The Village will take such steps as necessary to ensure the investments placed in escrow fully comply with regulatory provisions.

B. Compliance practices

1. Arbitrage – It is the Village's policy to minimize the cost of arbitrage rebate and yield restriction while strictly complying with the federal arbitrage and rebate regulations. The Village will take the following steps to minimize any rebate liability through proactive management in the structuring and oversight of its bonds.
   a. Examine whether the Village met the arbitrage rebate exception rules;
   b. Use bond proceeds only for the purpose and authority for which they were issued;
   c. Monitor the expenditure of bond proceeds and exercise best efforts to spend proceeds in such a manner that the Village will meet one of the spend-down exemptions from arbitrage rebate;
   d. Maintain detailed investment records and monitor the investment of bond proceeds with awareness of rules pertaining to yield restrictions; and
   e. Perform arbitrage rebate calculations as determined by the IRS.
2. Continuing disclosure – The Village has covenanted and agreed in the bond ordinance, in accordance with Rule 15c2-12 of the Securities Exchange Act of 1934, to provide certain financial information and operating data relating to the Village within 210 days after the close of the Village's fiscal year; and, in a timely manner, to provide notices of the occurrence of certain enumerated events. The following will be filed by the Village with the Municipal Securities Rulemaking Board (MSRB) for disclosures on its Electronic Municipal Market Access (EMMA) system:
   a. Audited financial statements;
   b. Financial and operating data included in the original official statement;
   c. Required event notices; and
   d. Voluntary event notices.
3. Legal covenants – The Village shall comply with all covenants and conditions contained in any legal document entered into at the time of the bond offering.