Warren-Newport Public Library District

Lake County, Illinois

Board of Trustees

Policy 2007

Debt

Adopted: March 19, 2013
Reviewed/Revised: February 16, 2016; September 17, 2019

ARTICLE 1. PURPOSE

This policy governs when, how, for what purposes, and to what extent the Warren-Newport Public Library District (WNPLD) may issue debt and provides guidance both in the management of repayment of outstanding debt and the augmentation of any capital improvement program. This policy:

- helps avoid common pitfalls of debt issuance and management;
- promotes long-term financial stability, including management of tax levies;
- sends a message of fiscal responsibility to the community;
- assists in maintaining and improving bond ratings; and
- enhances regulatory compliance.

ARTICLE 2. GENERAL GUIDELINES

The intent of this debt policy is to be firm in its design but not so inflexible in approach that the use of debt by WNPLD becomes difficult. Elements include, but are not limited to, the purposes for which debt may or may not be used, the limitations of debt, and the standards for debt issuance. The following represent elements of the debt policy guidelines for WNPLD:

- Long-term debt will not be used to finance current operations or to capitalize operating expenses. The capitalization of expenses, which represents a shift of operating costs onto long-term debt, is a practice that is expressly prohibited. To further support this policy, the highest priority for the issuance of long-term debt will be to further WNPLD's Capital Improvement Program. In this and other WNPLD policy statements, long-term debt is bonded indebtedness whose maturity is at least ten (10) years from the date of original issue.

- Long-term debt will be used only for capital projects that cannot be financed from current revenue sources. Where capital improvements or acquisitions are financed through the issuance of debt, such debt will be retired in a period not to exceed the expected life of the improvement or acquisition.

- WNPLD will also issue long-term debt for refunding of other outstanding debt for the purpose of saving interest. Usually, the minimum net present value savings shall be two percent (2%) of the par value of the proposed new bonds to be issued. However, circumstances may occur where a refunding may be advantageous with net present value savings of less than 2%.

- WNPLD will strive for overall level or declining debt repayment schedules and avoid back-loaded or balloon repayment schedules; WNPLD will also avoid variable-rate debt. This is to avoid fluctuations in debt service requirements as well as fluctuations in tax levy rates. Only in those circumstances where it is to WNPLD's advantage will debt service be scheduled on a non-even repayment basis. Also, WNPLD will strive to use debt that has a fixed interest rate because variable-rate debt requires dependence upon some external measures and/or indices and may be considered a form of speculation.

- A policy of full disclosure will be followed in all financial reports, official statements, and as part of any mandatory continuing disclosure undertaking. Information that is legally required to be distributed to the Nationally Recognized Municipal Securities Information Repository (NRMSIR) shall follow guidelines set forth from time to time, including any required Material Events Disclosure as interpreted under the Securities Exchange Act of 1934, as amended. Lastly, WNPLD will use generally accepted accounting principles in the preparation of all financial statements used in complying with disclosure requirements. All financial statements will be audited annually by an independent, certified public accounting firm.

- Though there is no limitation on the amount of debt that may be legally incurred by a public library district under State Statutes, WNPLD will attempt to limit its annual debt service to an amount in the aggregate not exceeding 15% of its annual revenue. Indebtedness will be presented annually as part of WNPLD's Annual Financial Report (AFR).

- Generally, WNPLD will repay any indebtedness incurred in the shortest possible time without creating undue hardship for taxpayers or patrons.

- Capital improvement or refunding indebtedness will be funded with General Obligation Bonds unless there are more appropriate means of financing. Examples of alternative financing that might be appropriate are revenue bonds and tax increment allocation revenue bonds.

- Any consultants providing advice and counsel for any issuance of WNPLD debt as well as broker/dealers acquiring WNPLD debt shall be independent. Financial advisors, bond counsel, and any broker/dealer for any issuance of debt shall each be separate entities having no relationship with each other. This is intended to prevent any conflict of interest and incorporates within this Policy the requirements of Municipal Securities Rulemaking Board Rule G-23, which permits financial advisor/underwriter relationships if such relationships are disclosed to WNPLD as issuer.

- Any financial advisor and bond counsel shall provide full and continuing disclosure to WNPLD of any relationship or agreement, formal or informal, which may be in conflict with the best interests of WNPLD. The financial advisor and bond counsel shall further be prohibited from engaging in such relationships or agreements without the express prior consent of WNPLD. Any potential for conflict of interest should be expressly recognized by all consultants.

ARTICLE 3. MID-TERM AND INTERIM DEBT

While WNPLD intends to match its borrowing needs with those identified within the approved Capital Improvement Program or, in some cases, with the refunding of outstanding debt at a lower net interest cost with long-term debt, there may be instances in which issuing other debt may be advantageous. Additionally, there may be a need to employ interim debt. The following policies are applicable to the issuance of either mid-term or interim debt:

- Mid-term debt is indebtedness issued for a term of ten (10) years or less. The use of such debt, with the exception of current debt refunding, shall be to provide financing for needs such as purchasing/replacing fleet equipment, renovation, or reconstruction of capital assets, purchasing specialized types of equipment, or acquiring communications or data systems/equipment. Each proposal for mid-term financing shall be evaluated on a case-by-case basis with final approval granted by the Board of Trustees.

- Interim debt is indebtedness issued for a term of less than five (5) years. Such borrowing may be used for the temporary funding of operational cash flow deficits pending receipt of anticipated revenues or for interim capital financing need; an internal borrowing for operational or capital acquisition would qualify as interim debt. Repayment will occur over a period not to exceed the useful life of the underlying asset but in any case, no longer than five (5) years, although the period could vary depending on the nature of the asset financed. In cases of internal borrowing for purposes other than capital acquisition, the term will be no greater than five (5) years.

ARTICLE 4. REVENUE-BASED DEBT

WNPLD may find it advantageous to issue revenue-based debt to fund enterprise capital financing needs. Should such indebtedness be required, the following standards shall apply:

- An annual rate and fee review will be conducted as part of the fiscal year budget process to ensure that predictable and affordable charges for services are in effect.

- WNPLD will maintain rates and fees necessary to conform to bond coverage requirements that may be required.

- The primary option for any enterprise financing, and also to serve as a modeling tool for future rate and fee requirements, shall be debt with a maximum maturity of twenty (20) years.

ARTICLE 5. BOARD AUTHORIZATION

All long-term, mid-term, and interim borrowing shall require approval of the Board of Trustees prior to authorization.

ARTICLE 6. ALTERNATIVE FINANCING

WNPLD will issue alternate types of indebtedness such as, but not limited to, Special Service Area Bonds or Tax Increment Allocation Revenue Bonds when such alternative financing is beneficial to an identified development strategy approved by the Board of Trustees. Such indebtedness shall be considered limited obligations of WNPLD secured by special taxes authorized by statue or in the case of TIF, by incremental property taxes. WNPLD will not use its full faith and credit to secure any alternative financing.

Further, should WNPLD issue alternative type debt, it shall take any and all reasonable steps to confirm the financial feasibility of any projects and the financial solvency of the end user(s). Further, all precautions will be taken to ensure that a true public purpose and financial viability exists for all such projects funded.

ARTICLE 7. OTHER AGENCY FINANCING

Through intergovernmental agreement, WNPLD may be obligated for a portion of debt issued by an associated public agency. Depending upon the nature of the obligation, disclosure will be noted within WNPLD's Annual Financial Report following generally accepted accounting principles. If the nature of external financing requires disclosure within the financial statements of WNPLD, such indebtedness obligations will be properly accounted for and disclosed.

ARTICLE 8. BOND CONVENANTS AND LAWS

WNPLD shall comply at all times with all covenants and requirements of bond ordinances including supplemental transcript documents and with state and federal laws authorizing and governing the issuance and administration of debt obligations.