SPECIAL CITY COUNCIL MEETING

Tuesday, November 5, 2013
6:15 p.m.

CITY OF EVANSTON, ILLINOIS
Room 2404
Lorraine H. Morton Civic Center
2100 Ridge Avenue, Evanston, IL

ORDER OF BUSINESS

I. Roll Call- Begin with Alderman Tendam

II. Citizen Comment

III. Strategic Planning Presentation and Discussion
- **A. Economic Development**
- **B. Financial Policies and City Debt**
- **C. Services for At Risk Families**

IV. Adjournment

Information is available about Evanston City Council meetings at: www.cityofevanston.org/citycouncil. Questions can be directed to the City Manager's Office at 847-866-2936. The City is committed to ensuring accessibility for all citizens. If an accommodation is needed to participate in this meeting, please contact the City Manager's Office 48 hours in advance so that arrangements can be made for the accommodation if possible.

For City Council meeting of November 5, 2013 **Item B**
For Discussion

City of Evanston

Memorandum

To: Honorable Mayor and Members of the City Council

From: Martin Lyons, Assistant City Manager/CFO

Subject: 2013 Strategic Plan - Finance and Debt Policy Review

Date: November 1, 2013

The 2013 Strategic Planning Process encompasses six major goals including Financial and Debt Policy planning. The City currently has the following policies related to Finances and Debt which are listed in the 2013 Approved Budget as Amended on pages 35-44:

- Fund Reserve Policies for the General, Parking, Water, and Sewer funds
- Debt Policy that references a variety of parameters including the total level of property tax supported debt approved by the City Council
- Budget Preparation and Procedures Policies

Debt Policy - Background:

The City also reviewed potential changes to debt policy provisions during the summer of 2010. Attached to this report is a correspondence presented at the September 20, 2010 Council meeting which reviews:

- The City's debt in comparison to other cities
- The Cities debt in comparison to Government Finance Officers Association best practice guidance.
- Potential steps to reduce the City's total debt

No action was taken as a result of this presentation. Subsequently the City has increased the limit of property tax supported General Obligation (G.O.) Debt to $113.0 million. Staff has updated some of this report which shows the City has made progress toward reducing our Outstanding Debt from both G.O. Bonds and other sources. The table on the following page summarizes our status in 2010 and our status based on the most recent data available.

	EAV	GO Debt	Other Debt	Total Debt	G.O. Debt to EAV Ratio	Total Debt to EAV Ratio
2013 Average	$2,839,761,003	$104,850,639	$39,318,376	$134,339,421	3.86%	5.41%
2013 Evanston	$2,727,367,573	$152,644,999	$72,485,368	$225,130,367	5.60%	8.25%
	EAV	**GO Debt**	**Other Debt**	**Total Debt**	**G.O. Debt to EAV Ratio**	**Total Debt to EAV Ratio**
2010 Average	$3,677,127,906	$106,603,916	$22,752,571	$121,772,296	2.90%	4.15%
2010 Evanston	$2,938,397,892	$174,110,001	$104,020,223	$278,130,224	5.93%	9.47%

The Average calculation is a percent average done by community, not a weighted average for the entire Debt to EAV ratio. In other words, the analysis focuses on debt per community regardless of community size. The updated table that shows the communities included in this review is attached.

In the 2010 analysis, Evanston's debt to EAV ratio was over double the average. Since then, despite reductions in Evanston's EAV, the City has reduced our percentage of debt to EAV from 9.47% to 8.25%, while the average for all communities in the survey went up from 4.15% to 5.41%. The reduced amounts of G.O. debt issued in 2009-10 and 2010-11, combined with continued retirement of debt, contributed substantially to this improvement in our debt position. This brief analysis is confirmed by Moody's and Fitch ratings agencies analysis that the City's debt is "manageable".

At the end of FY 2013, the City will still be below the unabated debt limit set by policy of $113,000,000. Our unabated debt has been changed by the refunding bonds issued on 10/31/13 and staff will provide a final number in January 2014.

Critical Factors Impacting Debt Financing:

While the City has made progress toward bringing our capital debt closer to levels of comparable communities and closer to "best practice" levels, there are major issues that must be managed to continue this trend over the next decade as noted below:

Pension Debt: The City's manageable G.O. and other capital debt is being eclipsed by Police and Firefighter Pension Fund debt. While the City has taken steps on the funding side of this debt issue, it has only partial control on the benefits side, which is set by the State of Illinois. The only control the City can exercise on the benefits/expense side is through the reduction of current staffing/salary costs which flow directly into the pension calculation. The City has been relatively successful at the bargaining table, keeping annual salary increases at approximately 2.0% over the past two contracts, however increases in Police staffing will increase the overall pension liability. Fortunately, based on our current funding policies, these additional personnel should not add to our unfunded liability, assuming we meet actuarial goals into the future.

Aging Facilities and Infrastructure: During the most recent recession the City reduced debt issuances and spent reserves in capital and TIF funds as a means to hold the line on tax increases. This was done while keeping facilities operational and maintaining infrastructure (street, water, and sewer). As will be discussed later in this policy memo, the continued use of reserves will not be a long-term solution as most funds are near or below optimal levels.

The Proposed 2014-2017 Capital Improvements Plan shows total capital to be funded through G.O. bonds at $48.3 million (includes replacement of a fire ladder truck at $1.0 million). At an average of over $12.0 million per year, the City would be issuing $2.0 to

$4.0 million more in property tax supported debt than will be retired. As the City begins to compile the total list of project costs for facilities renovation/replacement and puts in place a revised Capital Plan to include all facilities, the total projected costs will increase which will further widen the gap between bonds retired and new debt issued.

Alternatives:

As is the case in any budgeting situation, the City has the choice to consider funding increases or expense decreases to balance a deficit in funding. Unfortunately, in the case of this capital funding analysis, spending less means that our infrastructure will deteriorate further which will most likely actually increase total costs to maintain the same facilities and infrastructure in the long run. Similarly, we may not want to issue more debt to meet our funding demands when pension debt is increasing at the same time.

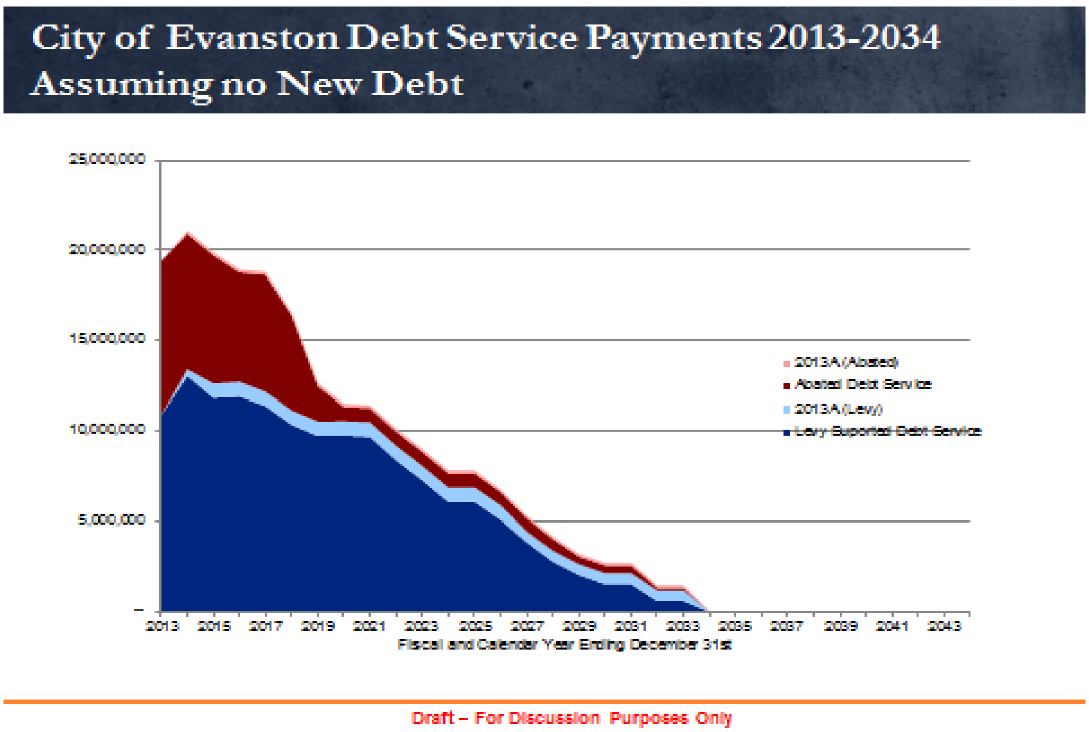
To answer the above two situations the City will need to consider operational changes that in turn will allow changes to our capital funding abilities as follows:

- Implement designated capital improvements revenues to create “pay as you go” funding. This process could involve:
    - A change in the ratio of capital and operating expenses. Assuming we do not want to raise taxes or fees, operating expenses can be reduced, with the savings being transferred to the Capital Improvements Fund as a revenue.
    - Increase current revenues, designated to the Capital Improvements Fund. This option could include the use of taxes (e.g. property, local sales, motor fuel, etc), or the use of user fees (e.g. permits).
    - Create new revenue sources designated to the Capital Improvements Fund. This option could include taxes (e.g. food and beverage), or new user fees (e.g. storm water fee).
    - Divert current operating revenues to the Capital Improvements Fund (e.g. a portion of sales or utility taxes). This would then require either an increase in other General Fund revenue or a decrease in operating expenses.
- Reduction of the total Capital Infrastructure to be maintained. These reductions can take the form of:
    - Fewer facilities to maintain.
    - Lower usage patterns for infrastructure.
        - Changing the use of a park area to passive as opposed to organized programs.
        - Closing or limiting hours in facilities.
- Shared services with other units of government or other partners in the Community:
    - Intergovernmental cooperation with local schools, Metropolitan Water Reclamation District or neighboring communities:
    - Partnerships with Northwestern University.
    - Municipal Partnering Initiative.

"Pay as You Go":

Because the Community cannot absorb major new tax or fee increases and the implementation of decreased operating expenses will most likely happen gradually, the implementation of a "pay as you go" capital funding solution will take several years. As the analysis below will show, the implementation of such a system, even if done over a long time period can save millions in interest costs, which in turn can be invested into infrastructure.

The City's current debt structure is reviewed each year when we issue bonds, and when Moody's and Fitch ratings agencies assess our credit. The graphic below shows the City's debt assuming no new bonds are issued.

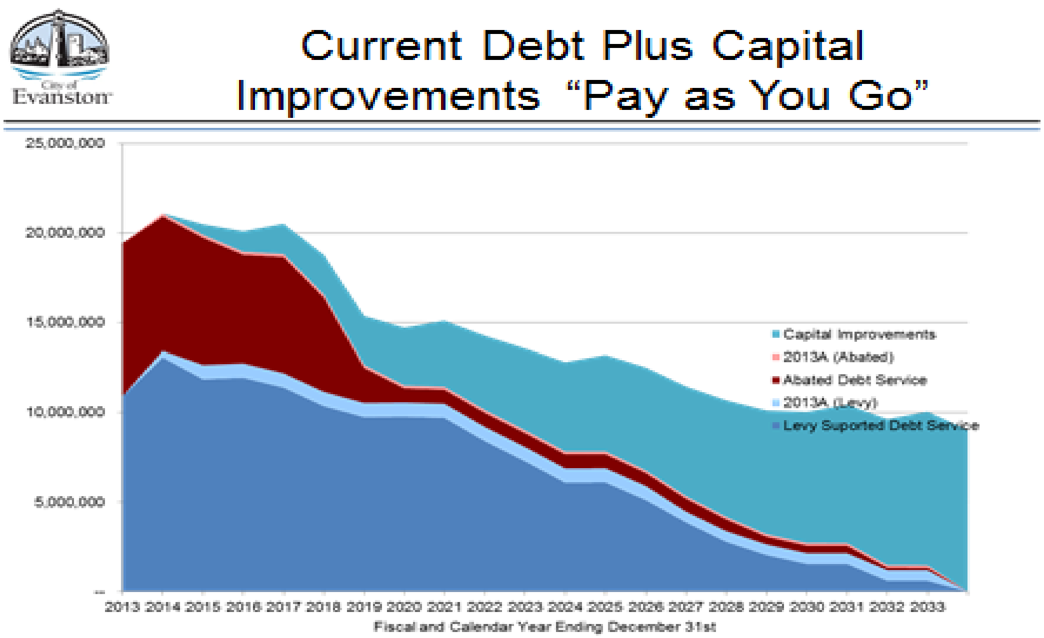


- The preceding graph includes G.O. debt for both Governmental and Business Type activities (Capital Improvements, TIF, Water, Sewer, and Parking).
- The preceding graph does not include IEPA Loans.
- Please note the sharp decline in abated debt by the year 2020. This may change depending on the activity in the City's TIF districts and depending on whether Water/Sewer/Parking debt is issued as G.O. debt or as revenue bonds in the future.

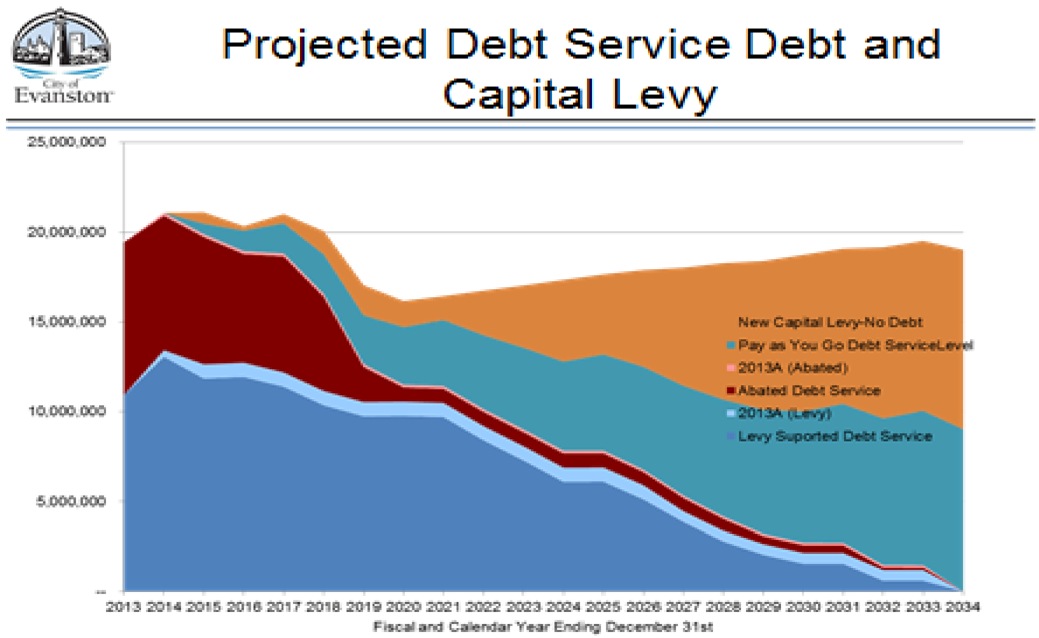
The City will not be able to maintain infrastructure and facilities and completely stop issuing debt immediately. However, if the City continues to fund Capital Projects at the rate proposed in the 2014 budget, the amount of taxes associated with debt service will increase substantially over the next 20 years. In order to utilize scarce tax resources, more efficiently staff recommends implementing a capital financing strategy that involves the usage of debt and "pay as you go" revenue sources as follows:

1. “Pay as you go” revenues will be used for ongoing infrastructure systems such as streets, water mains, etc. which are repaired/replaced on a long-term routine basis. Such revenues will also be used for on-going capital maintenance of all City facilities, excluding costs listed in item # 2 below.
2. G.O. Debt or other bonded debt will be used for major facilities renovation or replacement.

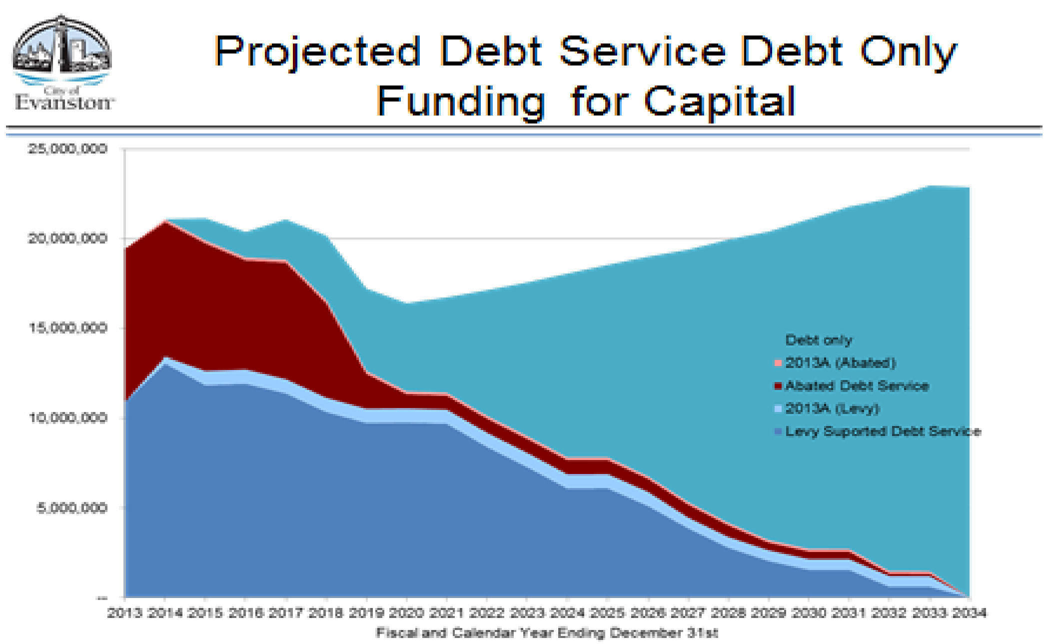
Using our original graph, we can build a picture of what our savings would look like under this strategy. The graphic below shows future debt and capital expenses with a new “pay as you go” revenue source. This revenue source would grow gradually and could be a combination of new revenue and the usage of interest savings as the City reduces total bond issuance each year.



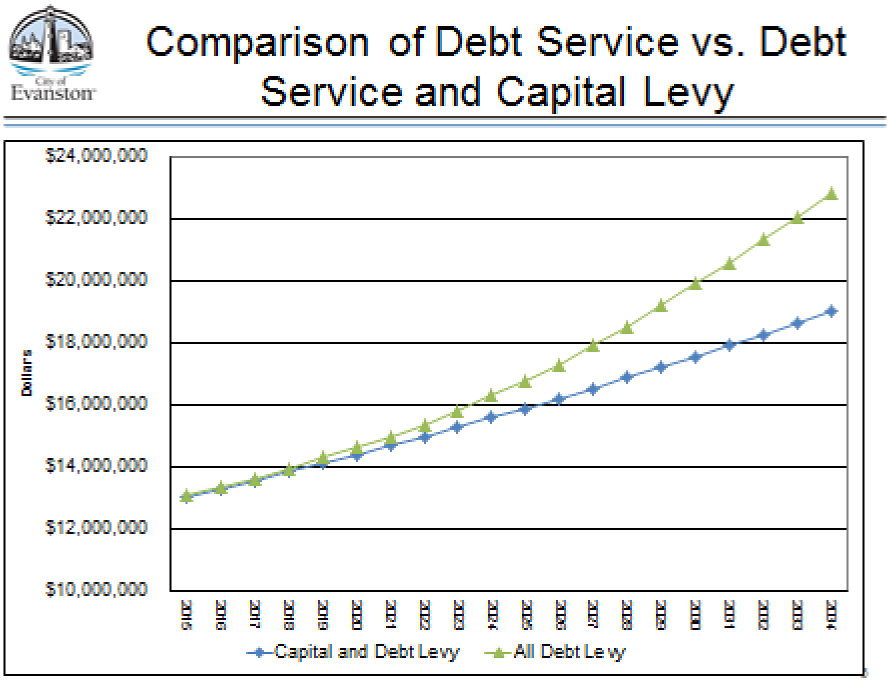
As noted previously, the City cannot reduce Capital Expenditures in the next few years by such a drastic level and therefore the current level of unabated debt being issued will be gradually reduced over time to keep current capital expenses at levels which will maintain our infrastructure. The chart below shows the impact of a slowly decreasing level of debt issuance over the next twenty years. In this example the debt is only reduced to $5.0 million and after this point increases by inflation. This reflects the concept of debt remaining for major facilities replacement/renovation.



Finally, we can look at what our debt service costs would look like assuming we continue to fund our capital solely from debt service.



Removing some of the detail from the chart above we get a simpler comparison of the annual capital costs of the two approaches as noted below:



Using the approach of a slowly declining use of debt, over $3.0 million is reduced in annual costs for capital on an annual basis. Over the twenty years in this example, the interest savings would be approximately $25 million.

If this approach is acceptable, we suggest more detailed meetings with the Capital Improvements Team and the City's Financial Advisor to further refine our tables and projections. We will also bring a revised Debt and Capital Funding Policy that outlines this approach for both our Capital Improvements program and our Enterprise Funds (Water, Sewer, and Parking).

Fund Reserve Policy:

General Fund: The current General Fund reserve policy is as follows:

- A minimum of 8.3% or one month of operating expenses shall be maintained as a reserve.
- Any monies over a 10% reserve in this fund shall be re-appropriated to other funds that have not met their reserve requirements.
- Once all funds have met their fund requirements additional funds shall go to the Capital Improvement Program.
- A minimum of a 5% reserve is required, per bond agreements.

Staff recommends adjusting the General Fund Reserve Policy as follows:

- *A minimum of 16.6% or two months of operating expense shall be maintained as a fund reserve and a minimum of 8.3% or one month of operating expenses must be in cash/investments.*
- *Any monies over this reserve may be transferred through the annual budget process or through a budget transfer approved by the City Council to other funds.*

There is no bond requirement with respect to the General Fund and this provision can be removed. Transfers to the Capital Improvements Fund will be addressed in a review of the City's Debt Policy and a new Capital Improvements Reserve policy.

Parking System Fund: The current Parking System Fund reserve policy is as follows:

- A minimum of 10% expenses shall be maintained as a reserve.
- In addition a sufficient reserve shall be maintained to meet bond requirements.
- A portion of the fund reserve shall be used to fund depreciation and capital improvement needs.
- A minimum of 5% is required, per bond requirements.

Staff recommends:

- Increasing the operating reserve from 10% to 16.6%.
- The elimination of the 5% reserve requirement for bonds.

In the event the City issues revenue bonds, the bond ordinance will have coverage requirements specific to the bonds and the Annual Financial Report will separate these reserves into separate accounts. The 2014 Proposed Budget shows a separation of fund reserves that are segregated for future capital needs.

Water Fund: The current Water Fund reserve policy is as follows:

- A minimum of 10% expenses shall be maintained as a reserve.
- In addition a sufficient reserve shall be maintained to meet bond/loan requirements.
- A portion of the fund reserve shall be used to fund depreciation and capital improvement needs.
- A minimum of a 5% reserve is required, per bond agreements.

Sewer Fund: The current Sewer Fund reserve policy is as follows:

- A minimum of 10% expenses shall be maintained as a reserve.

- In addition a sufficient reserve shall be maintained to satisfy both bond requirements and Illinois Environmental Protection Agency (IEPA) loan requirements. (A minimum of a 5% reserve is required, per bond agreements).
- A portion of this fund reserve shall be used to fund depreciation and capital improvement needs.

Staff recommends that the Water and Sewer Fund reserve be discussed at the same time as a new Capital Improvements Fund Reserve policy is put in place.

Other New Reserve Policies:

Fleet Maintenance Fund:

- Staff recommends the Fleet Maintenance Fund maintain an 8.3% reserve level and that the cash balance at year end be maintained above zero.

The Solid Waste Fund is not currently structured to accommodate an Enterprise fund reserve policy and further discussions on this fund will also be needed as a part of the 2014 and 2015 budget processes.

The Insurance Fund reserve is a two phase discussion because of the two different operations included in the Fund. Liability/Workers Compensation/Property Insurance costs are completely different than the costs associated with our employee benefit insurance programs. During 2014 staff will provide a review of both operations as follows:

1. A review of the Intergovernmental Personnel Benefits Cooperative which has provided a successful administration of our health and life insurance programs for the City, creating a minimum funding reserve and incurring benefit cost increases below the medical rate of inflation.
2. A review of our self-insured Liability/Workers Compensation/Property Insurance programs to include historical costs and options for alternative coverage.

Based on the discussion on November 5, 2013, future reserve and capital funding research will be done in preparation of follow-up meetings with the City Council.

Attachments:

1. November 2013 City Debt Comparison Table
2. September 2010 Memo: Debt Service Comparison, Best Practices and Debt Management Policy

	CITY DEBT COMPARISON					Attachment 1
		November-13				
		GO	Other	Total	G.O. Debt to EAV	Total Debt to EAV
Municipality	EAV	Debt	Debt	Debt	Ratio	Ratio
ARLINGTON HEIGHTS	3,399,641,981	$59,185,000.00	0	$59,185,000.00	1.74%	1.74%
AURORA	3,598,534,505	$147,040,000.00	$69,378,000.00	$216,418,000.00	4.09%	6.01%
DES PLAINES*	2,184,333,304	$64,365,000.00	$7,649,272.00	$72,014,272.00	2.95%	3.30%
ELGIN	2,356,508,821	$106,322,872.00		$106,322,872.00	4.51%	4.51%
HOFFMAN ESTATES	1,878,266,056	$105,020,000.00	$73,353,944.00	$178,373,944.00	5.59%	9.50%
JOLIET	2,676,345,255	$8,500,000.00	$57,417,998.00	$65,917,998.00	0.32%	2.46%
NAPERVILLE	6,072,976,994	$164,580,000.00		$164,580,000.00	2.71%	2.71%
PALATINE	1,987,066,782	$109,495,809.00	$116,859,000.00	$226,354,809.00	5.51%	11.39%
SCHAUMBURG	4,049,712,606	$289,575,000.00		$289,575,000.00	7.15%	7.15%
SKOKIE	2,561,731,480	$40,549,983.00	$16,449,476.00	$56,999,459.00	1.58%	2.23%
WAUKEGAN	1,442,086,224	$92,479,003.00	$10,045,000.00	$102,524,003.00	6.41%	7.11%
WILMETTE	1,869,928,027	$71,095,000.00	$2,712,695.00	$73,807,695.00	3.80%	3.95%
EVANSTON	2,727,367,573	$152,644,999.00	$72,485,368.00	$225,130,367.00	5.60%	8.25%
				AVERAGE	3.86%	5.41%
*Des Plaines Other Debt has not been updated from the 2010 Analysis.						

Attachment 2

For the City Council Meeting of September 20, 2010
Debt Service Comparison, Best Practices and Debt Management Policy

City of Evanston

Memorandum

To: Honorable Mayor and Members of the City Council

From: Marty Lyons, Assistant City Manager
Joellen C. Earl, Director of Administrative Services

Subject: Debt Service Comparison, Best Practices and Debt Management Policy

Date: September 17, 2010

At the Special City Council Meeting on June 21, 2010, a discussion occurred regarding debt. Specifically, debt carried by the City of Evanston in relationship to other communities as well as best practices that are available to consider moving forward. What follows is an updated comparison of debt based on more comparable communities, best practices and a recommendation for a debt management policy for the City of Evanston.

I. Comparables – the following communities were chosen as comparables based on population and/or the presence of a water facility. Further, the figures used in the following tables were taken from the 2008 Comprehensive Annual Financial Reports.

Municipality	Population	Water Facility
ARLINGTON HEIGHTS	73,399	
AURORA	164,681	X
DES PLAINES	57,062	
ELGIN	106,330	X
HOFFMAN ESTATES	53,641	
JOLIET	146,125	X
NAPERVILLE	143,117	
PALATINE	65,479	
SCHAUMBURG	71,716	
SKOKIE	66,620	
WAUKEGAN	90,788	X
WILMETTE	26,416	X
EVANSTON	77,693	X

The following tables illustrate some comparisons for discussion:

Total Debt to EAV ratio:

Municipality	EAV	GO Debt	Other Debt	Total Debt	Debt to EAV Ratio
ARLINGTON HEIGHTS	3,625,067,678	$ 68,130,000.00	$ -	$ 68,130,000.00	1.88%
AURORA	4,220,846,525	$178,420,000.00	$ 67,145,000.00	$245,565,000.00	5.82%
DES PLAINES	2,628,588,594	$ 77,878,843.00	$ 7,649,272.00	$ 85,528,115.00	3.25%
ELGIN	7,877,535,540	$124,757,203.00	$ -	$124,757,203.00	1.58%
HOFFMAN ESTATES	1,885,037,469	$ 90,705,000.00	$ 34,900,000.00	$125,605,000.00	6.66%
JOLIET	3,193,631,812	$ 11,340,000.00	$ 58,455,000.00	$ 69,795,000.00	2.19%
NAPERVILLE	6,618,234,602	$115,865,000.00	$ 6,305,000.00	$122,170,000.00	1.85%
PALATINE	2,328,686,350	$104,652,993.00	$ 148,548.00	$104,801,541.00	4.50%
SCHAUMBURG	4,724,117,989	$307,563,319.00	$ -	$307,563,319.00	6.51%
SKOKIE	3,202,002,087	$ 43,767,204.00	$ 3,444,867.00	$ 47,212,071.00	1.47%
WAUKEGAN	1,627,451,047	$ 90,592,425.00	$ 3,972,882.00	$ 94,565,307.00	5.81%
WILMETTE	2,194,335,175	$ 65,575,000.00	$ -	$ 65,575,000.00	2.99%
EVANSTON	2,938,397,892	$174,110,001.00	$104,020,223.00	$278,130,224.00	9.47%
				AVERAGE	4.15%

General Obligation Debt to EAV ratio:

Municipality	EAV	GO Debt	GO Debt to EAV Ratio
ARLINGTON HEIGHTS	3,625,067,678	$ 68,130,000.00	1.88%
AURORA	4,220,846,525	$178,420,000.00	4.23%
DES PLAINES	2,628,588,594	$ 77,878,843.00	2.96%
ELGIN	7,877,535,540	$124,757,203.00	1.58%
HOFFMAN ESTATES	1,885,037,469	$ 90,705,000.00	4.81%
JOLIET	3,193,631,812	$ 11,340,000.00	0.36%
NAPERVILLE	6,618,234,602	$115,865,000.00	1.75%
PALATINE	2,328,686,350	$104,652,993.00	4.49%
SCHAUMBURG	4,724,117,989	$307,563,319.00	6.51%
SKOKIE	3,202,002,087	$ 43,767,204.00	1.37%
WAUKEGAN	1,627,451,047	$ 90,592,425.00	5.57%
WILMETTE	2,194,335,175	$ 65,575,000.00	2.99%
EVANSTON	2,938,397,892	$174,110,001.00	5.93%
		AVERAGE	3.42%

Note: Non-home rule communities in Illinois can carry general obligation debt as a percentage of EAV up to a maximum of 8%.

General Obligation Debt per Capita:

Municipality	Population	GO Debt	GO Debt Per Capita
ARLINGTON HEIGHTS	73,399	$ 68,130,000.00	$ 928.21
AURORA	164,681	$178,420,000.00	$ 1,083.43
DES PLAINES	57,062	$ 77,878,843.00	$ 1,364.81
ELGIN	106,330	$124,757,203.00	$ 1,173.30
HOFFMAN ESTATES	53,641	$ 90,705,000.00	$ 1,690.96
JOLIET	146,125	$ 11,340,000.00	$ 77.60
NAPERVILLE	143,117	$115,865,000.00	$ 809.58
PALATINE	65,479	$104,652,993.00	$ 1,598.27
SCHAUMBURG	71,716	$307,563,319.00	$ 4,288.63
SKOKIE	66,620	$ 43,767,204.00	$ 656.97
WAUKEGAN	90,788	$ 90,592,425.00	$ 997.85
WILMETTE	26,416	$ 65,575,000.00	$ 2,482.40
EVANSTON	77,693	$174,110,001.00	$ 2,241.00
		AVERAGE	$ 1,491.77

Per Capita GO Debt as a Percentage of Per Capita Income:

Municipality	Population	GO Debt	GO Debt Per Capita	Per Capita Income	Per Capita GO Debt as % Per Capita Inc.
ARLINGTON HEIGHTS	73,399	$ 68,130,000.00	$ 928.21	$ 33,544.00	3%
AURORA	164,681	$ 178,420,000.00	$ 1,083.43	$ 26,674.00	4%
DES PLAINES	57,062	$ 77,878,843.00	$ 1,364.81	$ 24,146.00	6%
ELGIN	106,330	$ 124,757,203.00	$ 1,173.30	$ 26,744.00	4%
HOFFMAN ESTATES	53,641	$ 90,705,000.00	$ 1,690.96	$ 34,064.00	5%
JOLIET	146,125	$ 11,340,000.00	$ 77.60	$ 22,133.00	0%
NAPERVILLE	143,117	$ 115,865,000.00	$ 809.58	$ 42,489.00	2%
PALATINE	65,479	$ 104,652,993.00	$ 1,598.27	$ 30,661.00	5%
SCHAUMBURG	71,716	$ 307,563,319.00	$ 4,288.63	$ 30,587.00	14%
SKOKIE	66,620	$ 43,767,204.00	$ 656.97	$ 27,136.00	2%
WAUKEGAN	90,788	$ 90,592,425.00	$ 997.85	$ 20,249.00	5%
WILMETTE	26,416	$ 65,575,000.00	$ 2,482.40	$ 55,611.00	4%
EVANSTON	77,693	$ 174,110,001.00	$ 2,241.00	$ 39,103.00	6%
				AVERAGE	5%

When considering best practices and recommending a debt policy, focus was placed on general obligation debt or taxpayer supported debt, which is generally unabated. Abated debt, such as debt incurred by the water and sewer funds is not related to this analysis. This abated debt has its own revenue sources that can change as a result of City Council action, thus inclusion of this debt when making a comparison will yield weighted results. Thus, separating tax supported debt from debt that is supported by its own revenue source makes sense for this analysis in order to derive a more equalized comparison.

Further, consideration of debt capacity and how it should be managed is part of a larger picture that should be considered moving forward to guarantee the fiscal soundness of the City. The following list of Top 10 Management Characteristics of Highly Rated Credits in U. S. Public Finance appears below. The list is excerpted from a July 26, 2010 Standard & Poor's publication. Following each item are the measures that are presently in place in Evanston.

1. <u>An established "rainy/day"/ budget stabilization reserve.</u>
    - The City has fund reserve policies in place for General, Water, Sewer and other funds;
    - The City has other reserves related to specific issues such as IMRF pension and Compensated Absences due to employees.
2. <u>Regular economic and revenue updates to indentify shortfalls early</u>.
    - The Council receives monthly and quarterly financial reports, which display both fund balance and cash balance levels;
    - Staff compares current year to prior year to note trends.
3. <u>Prioritized spending plans and established contingency plans for operating budgets</u>.
    - Capital Projects were prioritized in 2010-11;
    - General Fund maintains a contingency line item and the Capital Projects fund plans to include one in 2011.
4. <u>A formalized capital improvement plan in order to assess future infrastructure requirements</u>.
    - The City has a formalized CIP.
5. <u>Long-term planning for all liabilities of a government, including pension obligation, OPEB (other post employment benefits) and other contingent obligations and comprehensive assessment of future budgetary risks</u>.
    - The City includes long term debt tables in the CAFR;
    - The City continues to address the long term unfunded liability by negotiating changes to the collective bargaining agreements;

- The City provides a 30 year projection of Police and Fire pension obligations as a part of the annual review.

6. A formal debt management policy in place to evaluate future debt profile.
   - Debt is currently referenced in our Budget Policy; however, a more formal policy will be recommended.
7. A pay-as-you-go financing strategy as part of the operating and capital budget.
   - The CIP should have its own Revenue Source, at least in part, which will be discussed during the budget process this year.
8. A multiyear financial plan in place that considers the affordability of actions or plans before they are part of the annual budget.
   - Staff will focus on a long-term financial strategy in the upcoming year.
9. Effective management and information systems.
   - The Financial and Human Resources software will be recommended for replacement in the upcoming fiscal year.
10. A well-defined and coordinated economic development strategy.
    - An Economic Development Strategy was adopted by the City Council in January 2010.

The City of Evanston is well on its way to ensure fiscal soundness in the years to come. While there are items that could be improved, the majority of the Top 10 items are presently in place as indicated above. The addition of a Debt Management Policy as part of an updated Budget Policy will further assist in meeting the characteristics recommended by Standard and Poor's.

II. Best Practices:

The following is a list of best practices that could be used when developing a debt management policy:

Description	Target
GO Debt Per Capita	$850
Net Direct Tax Supported as Percentage of EAV	3%
General Funds Reserve as Percentage of Current Year's Operating Budget	22% to 30%
Debt Service Per Capita as a Percentage of Income Per Capita	5%

Source: Governmental Finance Officers Association

III. Debt Management Policy:

The attached debt management policy is recommended to be included in to the City's Budget Policy.

City of Evanston-
Debt Management Policy

I. Purpose:

This policy establishes guidelines for the use of debt financing that will allow the City to minimize financing costs, maintain sustainable debt levels given debt service resources available and retain or improve the current bond rating on new and outstanding debt.

II. General Guidelines:

The City shall project debt requirements on a basis equal to the average bond life currently outstanding to balance the resources available for short term operational needs with resources needed for long term debt service payments.

The City will not fund current operations from the proceeds of long-term financing. The City may fund normal maintenance expenses from long-term financing only if the maintenance to be performed extends the life of the asset beyond the financing period projected. The City will confine long-term borrowing and capital leases to capital improvements, projects, or equipment that cannot be financed from current financial resources. In an effort to conserve debt capacity, the City shall borrow only when necessary and utilize pay-as-you-go financing (the practice of financing expenditures with funds that are currently available rather than borrowing) to the extent possible.

The City's debt capacity shall endeavor to be maintained within the following generally accepted benchmarks:

1. Net debt per capita should remain under nine-hundred dollars ($900) or under five percent (5%) of debt per capita as a percentage of income per capita (Evanston is currently at $2,241.00 and six percent (6%) respectively).

2. Net debt as a percentage of estimated market value of taxable property should not exceed three percent (3%) (Evanston is currently at 5.93%).

3. The ratio of debt service expenditures as a percent of governmental fund expenditures should not exceed ten percent (10%) (Evanston is currently at 12%).

The City shall endeavor to achieve and maintain an underlying bond rating of at least Aa1 (Moody Rating Service) for its obligations, which will facilitate favorable interest costs.

In general the City will adhere to the following debt guidelines:

1. The City will strive to keep the average maturity of General Obligation Bonds at or below fifteen (15) years.

2. When the City finances capital projects by issuing bonds, it will amortize the debt over a term not to exceed the average useful life of the project.

3. The City shall review its outstanding debt annually for the purpose of determining if the financial marketplace will afford the City the opportunity to refund an issue and lessen its debt service costs. In order to consider the possible refunding of an issue, a Present Value (PV) savings of three percent (3%) over the life of the respective issue, at a minimum, must be attained. The refinancing of debt analysis should include a discussion of any extension of the debt beyond the original maturity date, and consider any issue of additional debt (refinancing issued at a premium or other reasons) when calculating the 3.0% savings.

4. When appropriate the City will use special assessment or self-supporting bonds instead of general obligation bonds, so that those benefiting from the improvements will absorb all or part of the cost of the project financed.

5. The City will continue to communicate its financial condition with bond and credit rating agencies.

6. The City will follow a policy of "full disclosure" in its Comprehensive Annual Financial Report (CAFR) and bond policies.

<u>III. Debt Issuance Guidelines:</u>

A. Considerations when issuing General Obligation (G.O.) or Revenue Bonds. When the City has the option of using G.O. or revenue bonds, the City will consider the benefits of reduced debt expense and flexibility achievable through G.O. debt versus reserving the City's G.O. debt capacity by issuing revenue debt. The City may use General Obligation bonds in lieu of revenue bonds if debt expense can be significantly reduced (as compared to financing with revenue debt) and if special or enterprise fund revenue is sufficient and reliable to fund debt service costs. In such cases, the City Council may adopt ordinances abating the debt tax levies and direct staff to pay debt service costs with alternative revenues.

B. Credit Enhancements. The City will seek credit enhancements such as letters of credit or insurance when necessary to make the financing more cost-effective.

C. Debt Structure Guidelines. In general, the City will maintain a debt structure under which 50% of the outstanding principal will be repaid within ten years. The City will issue debt on a level debt service structure unless external costs or resources justify deviation from this standard.

D. Overlapping Debt. The City will monitor levels of overlapping debt and communicate debt plans with public entities that may issue overlapping debt. The City will take into account overlapping debt in considering both the amount of debt that the City will issue and the timing of City bond issues.

E. Professional Services. To provide assistance in debt issuance, the City will select a financial advisor and/or investment banker and bond counsel on a competitive basis; these advisors will be retained for several years to provide continuity and allow them to develop an understanding of the City's needs.

F. Competitive versus negotiated debt issuance. The City will generally conduct financing on a competitive basis; however, negotiated financing may be used where market volatility or the use of an unusual or complex financing or security structure causes a concern with regard to marketability.

G. Inter-Fund Loans. The City may use inter-fund loans (in lieu of borrowing from private parties) to minimize the expense and administrative effort associated with external borrowing. Inter-fund loans are typically made for relatively short periods of time (under five years) and relatively low amounts (under one million dollars). Inter-fund loans will be considered to finance high priority needs on a case-by-case basis.

V. DEBT ADMINISTRATION

A. Financial Disclosure. The City will follow a policy of full disclosure on every financial report and bond prospectus (Official Statement) voluntarily following applicable disclosure guidelines.

B. Monitoring Outstanding Debt.

1. The City will monitor all forms of debt annually and include an analysis in the City's annual budget; concerns and recommended remedies will be reported to the City Council as necessary.

2. The City will monitor bond covenants and federal regulations concerning debt and adhere to those covenants and regulations at all times.

3. Investment of Bond Proceeds. The City will invest bond proceeds in accordance with the Illinois Investment Act, the City's adopted investment policy and federal arbitrage regulations.

C. Continuing Disclosure. The City will adhere to all requirements related to primary and secondary market disclosure, including annual certifications as required. This would include arbitrage rebate monitoring, federal and state law compliance and market and investor relations.