

## **CITY OF NORTH MANKATO, MN DEBT MANAGEMENT POLICY**

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### **PURPOSE**

The use of borrowing and the issuance of debt is an important and flexible revenue source available to the City of North Mankato. The issuance of debt is a mechanism which allows capital improvements to proceed when necessary and in advance of when it may otherwise be feasible. It can reduce long-term costs due to inflation, prevent lost opportunities, and equalize the costs of improvements to present and future property owners and customers of the City.

Debt management is an integral part of the financial management of the City. Adequate financial 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 and/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 challenges for the local economy as a whole.

### **POLICY STATEMENT**

Fiscally prudent and managed use of debt provides financial and operating advantages. Extensive use 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 restrict long-term borrowing to planned capital improvements, as included in the City's Ten Year Capital Improvement Plan (CIP), and a limited use of short-term debt for capital outlay and acquisition.
1. The City will not use long-term debt for current operations.
2. The City will strive to maintain a "pay-as-you-go" capital funding policy, supporting capital spending without use of debt whenever appropriate and feasible.
3. The City will pay back debt within a period not to exceed the expected useful life of the projects.
4. 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 disclosure document.
5. 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.

6. During the annual budget process, a debt analysis will be prepared in conjunction with the Capital Improvement Plan to provide information about the City's debt structure. The annual debt study shall include at a minimum:
  - a. Future estimated total debt outstanding, both existing debt and new debt issuance plans, by type of debt (general obligation, revenue, etc.)
  - b. Annual estimated source of revenue by type (i.e., property tax levy, special assessments, utility revenue, etc.) for payment of debt service (principal and interest), both existing debt and new debt issuance plans