

# **Debt Management**

## **Mission Statement**

It is the mission of the Debt Management Fund to account for bonded indebtedness incurred by the City, including all bond and interest payments.

**Primary Functions** → The primary function of the Debt Management Fund is to retire debt incurred by the City for long-term capital projects and short-term cash flow financing, by making annual payments of interest and principal based upon a planned schedule.

### **Fund Highlights** →

Since 1982 when the first Capital Improvements Program was adopted, the City has gone to the market annually to seek financing for its infrastructure improvements. In addition to retiring debt through property taxes, sales taxes, and water revenues, the City also utilizes tax increment financing (TIF) and special service area (SSA) districts property taxes to retire bonds.

In 2006, the City submitted a referendum question to the voters to determine whether or not they would, rather than financing streets and drainage improvements through voter approved bond issue referendums and the resulting property tax financed debt service, rather pay for infrastructure improvements through a one percent sales tax. While the voters defeated that proposal, they approved the same proposal, but with a five year limitation, in the spring 2007 election. Effective July 1, 2007, the tax is estimated to generate \$16 million annually. Property tax financed debt service will end in 2017.

Currently, the City is in the midst of a four year \$75 million water improvement program that is being financed by bond issues that will be repaid by water revenues. When this program is complete, the City will finance future water improvements on a cash basis.

For the future, the City will only issue bonds for development purposes that are financed by TIF district property tax increment or other non property tax alternate revenue sources.

The City's current bond (long-term debt) and note (short-term debt) ratings are A-1 and MIG-1 respectively from Moody's Investors Service. The bond rating was upgraded during 2000 from A2 to A1. Moody's highlighted three critical factors in their review: (1) the City's economic base will continue to experience moderate growth and diversification improving economic performance; (2) sound financial operations in the City government due to steady revenue growth and conservative financial management; and (3) a moderate debt burden with rapid payout. This improved rating will reduce interest costs for future bond issues. The City plans to continue its efforts in order to insure that it will be able to borrow and borrow at the best interest rate possible.

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## CITY OF ROCKFORD, ILLINOIS OUTSTANDING AND PROPOSED DEBT ISSUES

<u>ISSUE AND AMOUNT</u>	<u>PAYMENT SOURCE</u>	<u>FINAL LEVY YEAR</u>
1995 \$1,745,924 Kishwaukee Trunk Sewer (RRWRD)	7	2015
1997 \$9.105 GOB (Series A-\$5.420 Street, Series A-\$1.000 Drainage, Series B-\$2.335 Water, Series C-\$0.350 Sewer)	1, 7, 2	2009
1999 \$5.3 Water Alt (Series A-\$2.2, Series B-\$3.1)	2	2011, 2018
1999 \$28.5 GOB (Series A-\$16.5 (\$7.0 Street, \$9.5 GOB Refunding), Series B-\$7.0 Coronado Theatre Public	1,6	2012, 2018
2000 \$12.2 GOB (Series A-\$6.0 Street, Series B-\$2.2 Water, Series C-\$4.0 South Rockford TIF)	1,2,3,6, 9	2013, 2020
2000 \$3.0 GO Alt (Series D-7th Street TIF Project)	3	2014
2001 \$9.2 GOB (Series A-\$7.0 Street, Series B-\$2.2 Water)	1, 2	2013
2001 \$0.575 GOB Alternate (Lincolnwood Housing TIF)	3	2010
2002 \$13.2 GOB (Series A-\$8.0 Street, Series B-\$2.2 Water, and Series C-\$3.0 7th Street TIF Project)	1, 2, 3	2014
2002 \$2.5 GOB Taxable Alternate (Downtown Development)	3	2011
2002 \$3.360 GOB Alternate and Refunding (Series D-\$2.060 Refunding Sales/Water, \$1.3 Springfield Corners Housing TIF)	2, 3, 7	2020
2003 \$10.4 GOB (Series A-\$8.2 Street, Series B-\$2.2 Water)	1, 2	2015
2004 \$15.9 GOB (Series A-\$8.5 Street, Series B-\$2.2 Water, Series C-\$2.0 7th St Taxable TIF Project, and Series D-\$3.2 Equipment)	1, 2, 3, 7	2016
2004 \$14.570 GOB Alternate and Refunding, (Alternate, Series E-\$4.65, N Main TIF \$1.65, Airport TIF \$3.0, Refundings, Series F-\$4.375 Street/ Drainage, Series G-\$2.475 Water, Series H-\$3.070 S Rockford TIF)	1, 2, 3	2023
2005 \$10.9 GOB (Series A-\$8.7 Street, Series B-\$2.2 Water)	1, 2	2017
2005 \$10.6 GOB (Alternate, Series C-\$7.550, Airport TIF \$0.915, Lincolnwood II TIF \$0.560, Springfield Corners TIF \$1.795, River Oaks \$2.450, Garrison TIF \$1.500, Lincolnwood I Refunding, \$0.530, Series D-\$2.850 Taxable Alternate Southwest Rockford Econ Dev	3,7	2017
2006 \$17.5 GOB (Series A-\$15.0 Water, Series B-\$2.5 Hope 6 TIF)	2,3	2025
2007 \$29.865 GOB Alternate and Refunding (\$23.0 Metro Centre Improvements (Series A-\$6.635 Tax Exempt, Series B-\$16.365 Taxable), Series C-\$6.865 GOBA Refunding)	6,9	2026
2007 \$8.75 GOB Alternate (Series D-\$3.5 Water, Series E-\$1.1 Preston Central TIF, Series F-\$1.1 Sewer, Series G-\$3.05 Library)	2	2026
2008 \$12.15 GOB Alternate (Series A-\$9.0 Water, Series B-\$1.3 TIF (\$1.1 Airport, \$0.2 Jackson School), Series C-\$1.85 Taxable Parking	2,3,7,8	2026
2008 \$12.15 GOB Alternate (Series A-\$9.0 Water, Series B-\$1.3 TIF (\$1.1 Airport, \$0.2 Jackson School), Series C-\$1.85 Taxable Parking	2,3,5	2028
2009 \$2.6 GOB Alternate (Series A-\$1.65 TIF (\$0.35 River North, \$1.3 Main Whitman), Series B-\$0.95 Taxable Global Trade #1)	3	2018
		2029, 2024

2009 bonds issued

Amounts are in Millions

ALTERNATE - General Obligation Bonds (Alternate)

ALTERNATE CERTIFICATE - General Obligation Certificates

GOB - General Obligation Bonds (Exempt)

GOB TAXABLE - General Obligation Bonds (Taxable)

WRB - Water Revenue Bonds

### PAYMENT SOURCES

- |   |   |
|---|---|
| 1 | Property Taxes                            |
| 2 | Water Fund Revenues                       |
| 3 | Tax Increment Financing District Revenues |
| 4 | Special Service Area Property Taxes       |
| 5 | Parking Fund Revenues                     |
| 6 | Redevelopment Fund Revenues               |
| 7 | Sales Taxes                               |
| 8 | Off Track Betting Revenues                |
| 9 | Private, Other                            |

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## Budget Summary

DEBT SERVICE FUND BUDGET SUMMARY					
APPROPRIATION	2007 <u>ACTUAL</u>	2008 <u>BUDGET</u>	2008 <u>ACTUAL</u>	2009 <u>BUDGET</u>	INCREASE <u>(DECREASE)</u>
BOND INTEREST	\$4,820,903	\$6,725,120	\$5,037,849	\$6,111,173	(\$613,947)
BOND PRINCIPAL	10,213,026	12,420,852	11,025,852	12,613,764	192,912
TOTAL	<u>\$15,033,929</u>	<u>\$19,145,972</u>	<u>\$16,063,701</u>	<u>\$18,724,937</u>	<u>(\$421,035)</u>
Actuals exclude water system debt					
FUNDING SOURCE	2008 <u>AMOUNT</u>	2008 <u>PERCENTAGE</u>	2009 <u>AMOUNT</u>	2009 <u>PERCENTAGE</u>	
PROPERTY TAXES					
DEBT SERVICE-CITYWIDE	\$7,666,587	40.0	\$7,092,902	37.9	
DEBT SERVICE-SPECIAL DISTRICTS	0	0.0	0	0.0	
	7,666,587	40.0	7,092,902	37.9	
ABATEMENTS-TAX EXEMPT					
PUBLIC WORKS WATER DIVISION	4,845,885	25.3	4,630,778	24.7	
SALES TAX	671,363	3.5	617,173	3.3	
TIF DISTRICTS	1,872,203	9.8	2,123,318	11.3	
OFF TRACK BETTING	0	0.0	0	0.0	
REDEVELOPMENT FUND	757,655	4.0	846,905	4.5	
OTHER	<u>748,873</u>	<u>3.9</u>	<u>769,770</u>	<u>4.1</u>	
	8,895,979	46.5	8,987,944	47.9	
ABATEMENTS-TAXABLE					
TIF DISTRICTS	726,916	3.8	830,655	4.4	
SALES TAX	326,093	1.7	316,094	1.7	
REDEVELOPMENT FUND	903,825	5.5	902,625	4.8	
PARKING	160,092	(15.7)	123,687	0.7	
OTHER	<u>466,481</u>	<u>2.5</u>	<u>471,031</u>	<u>2.5</u>	
	2,583,407	11.0	2,644,092	14.1	
INTEREST INCOME	0	0.0	0	0.0	
TOTAL	<u>\$19,145,972</u>	<u>97.5</u>	<u>\$18,724,937</u>	<u>99.9</u>	

## Budget Analysis

A \$12.15 million general obligation alternate bond issue was sold on April 7, 2008 for water, \$9.0 million, TIF districts, \$1.3 million ((\$1.1 million in Global Trade Park #1 and \$0.2 million for Jackson School), and taxable parking, \$1.85 million, for acquisition of a parking deck and pay station improvements. The water and parking are twenty year bonds and the TIF portion is ten years. Repayment will be by water revenues, TIF property tax increment, and parking revenues.

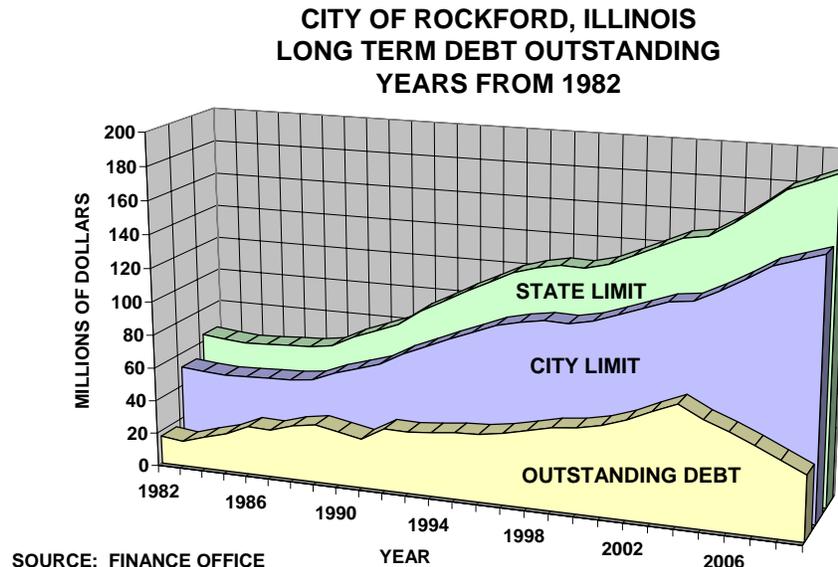
While plans are still being formulated, the City anticipates two 2009 sales, in the early spring and late fall for TIF district development projects. The 2009 spring sale, \$2.6 million, will be two parts, \$1.65 million tax exempt for two housing projects, Valencia (\$0.35 million) in the River North TIF and Rock River Towers (\$1.3 million) in the Main Whitman TIF, and an air cargo facility, \$0.95 million, in the Global Trade Park #1 TIF.

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Including the 2008 sale, the City has issued \$27.5 million in the traditional marketplace for the water construction program. For the last half of the water construction program, the City will participate in a State loan program for eligible mitigation activities that will produce considerable interest savings though it will require project scheduling and short term financing considerations. From 2008 through 2012, the City will apply for annual loans, twenty year maturity, of approximately \$8.0 million from the Illinois EPA. While 2008 and 2009 will be pay as you go, since the construction program will end in 2010, the City will need to utilize \$25.0 million in interim financing for 2008 through 2012. The City secured a five year financing vehicle that will mature in 2013. The City intends to make early repayments as allowed by the loan agreement in 2009 (\$8.0 million), 2010 (\$8.0 million), and 2011 (\$9.0 million). Utilizing the State loan program rather than the traditional marketplace should produce net savings to the City of some \$8.0 million. To date, the State has approved \$23.0 million.

The General Fund sales tax transfer for annexation improvements will be \$521,867 (includes \$119,073 for the Kishwaukee Sewer Trunk, a 20 year state loan through the water reclamation district). In addition, the \$3.2 million Equipment issue, averaging \$398,000 per year for 10 years, will be repaid from sales tax. Combined, the 2009 sales tax transfer for debt service will be \$933,267.

With no new general obligation debt proposed for street issues, the 2009 property tax funded debt service will only be for the nine outstanding bond issues. The 2009 gross levy is \$7,164,547, a rate of 32.7 cents. The \$580,000 decrease from the prior year is due primarily to the 2003 \$3.125 million refunding issue debt service ending. With no new referendum debt for street improvements to be proposed, all outstanding debt will be retired by 2017 and the City's debt service tax rate will be eliminated.



The State has a limit of 8.625% of debt to equalized assessed valuation (EAV) for non-home rule units. Applying this percentage to the City, the limit would be \$186.3 million (2008 EAV). With

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\$38.3 million outstanding in general obligation bonds and certificates, the City is at 20.6% of the limit and has \$148.0 million in authority remaining. The City Council has adopted a more stringent policy, 20% less than the State limit that allows only \$149.0 million, 6.9% of EAV. Even with the stricter City policy, \$110.7 million in authority is still available.

### Five Year Financial Forecast

As part of the annual development of the five year capital improvements program, the City also prepares a bond issue schedule. For the 2010-2014 period, the City plans to sell bonds for redevelopment, annexation, and water improvements varying in size. Actual size and issuance depends upon the development of the annual capital improvements program. As existing street debt is retired, the debt service tax rate should continue to decrease.

#### DEBT SERVICE FUND 2010-2014 FINANCIAL FORECAST (IN 000'S)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Revenues	\$17,966	\$17,333	\$16,114	\$15,491	\$14,486
Expenditures	<u>17,966</u>	<u>17,333</u>	<u>16,114</u>	<u>15,491</u>	<u>14,486</u>
Excess (Deficit)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Beginning Balance	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>
Ending Balance	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>
GO Bond Issues	0	0	0	0	0
Water Issues	0	0	0	0	0
Alternate Issues	0	0	0	0	0
Tax Rate (Cents)	30.4	26.6	22.8	19.5	15.8