

# **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 principle 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.

When a TIF is created the assessed valuation of that district is frozen. As redevelopment takes place, the additional property tax revenue, the increment, is used for public improvements in those districts. SSA property tax revenues are taxes levied solely in an area for its improvements similar to a special assessment roll district. The City has utilized TIF financing for improvements in six districts, East Side, West Side, Seventh Street, South Rockford, Lincolnwood, and Springfield Corners. Four SSA districts have been created since 1980, Broadway, Indian Terrace, East State Street, and Manchester Drive.

Prior to the loss of home rule in 1983, the City did not issue water revenue bonds. Rather, it issued general obligation bonds in order to secure lower rates and then abated the levies with water revenues. With the loss of home rule, the City submits all general obligation bond issues to the voters for approval. Revenue and alternative bond issues can be approved by the Council.

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.

# Debt Management

## 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 \$13.210 GOB Refunding (Series A-\$5.650 Water Refunding, Series B-\$7.560 Certificate Refunding)	2, 3, 8	2007
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
2001 \$8.785 GOB Refunding (Series A-\$6.53 Non-BQ and Series B-\$2.255 BQ)	1, 7, 2	2008, 2007
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
2003 \$5.855 GOB Refunding (Series 1-\$3.125 BQ, Series 2-\$1.365 BQ, Series 3-\$0.285 BQ, and Series 4-\$1.080 Taxable GOB Refunding)	1, 2, 7, 3, 5, 6	2008
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 \$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 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

# Debt Management

## Budget Summary

<b>DEBT SERVICE FUND BUDGET SUMMARY</b>					
<b>APPROPRIATION</b>	2003 <u>ACTUAL</u>	2004 <u>BUDGET</u>	2004 <u>ACTUAL</u>	2005 <u>BUDGET</u>	INCREASE (DECREASE)
BOND INTEREST	\$3,859,721	\$5,144,940	\$3,871,126	\$4,982,260	(\$162,680)
BOND PRINCIPAL	<u>11,442,532</u>	<u>11,147,622</u>	<u>14,530,039</u>	<u>11,990,284</u>	<u>842,662</u>
TOTAL	<u>\$15,302,253</u>	<u>\$16,292,562</u>	<u>\$18,401,165</u>	<u>\$16,972,544</u>	<u>\$679,982</u>
Actuals exclude water system debt and reflect 2004 refunding.					
<b>FUNDING SOURCE</b>	2004 <u>AMOUNT</u>	2004 <u>PERCENTAGE</u>	2005 <u>AMOUNT</u>	2005 <u>PERCENTAGE</u>	
PROPERTY TAXES					
DEBT SERVICE-CITYWIDE	\$7,712,139	47.3	\$8,594,945	50.6	
DEBT SERVICE-SPECIAL DISTRICTS	<u>0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>	
	7,712,139	47.3	8,594,945	50.6	
ABATEMENTS-TAX EXEMPT					
PUBLIC WORKS WATER DIVISION	4,673,808	28.7	4,284,575	25.2	
SALES TAX	832,005	5.1	875,585	5.2	
TIF DISTRICTS	892,033	5.5	895,588	5.3	
OFF TRACK BETTING	280,085	1.7	269,298	1.6	
DEVELOPMENT GROUP FUNDS	1,517,118	9.3	1,597,067	9.4	
CORONADO AMUSEMENT/PARKING	<u>57,600</u>	<u>0.4</u>	<u>129,600</u>	<u>0.8</u>	
	8,252,649	50.7	8,051,713	47.5	
ABATEMENTS-TAXABLE					
TIF DISTRICTS	327,774	2.0	325,886	1.9	
REDEVELOPMENT FUND	0	0.0	0	0.0	
PARKING SYSTEM	<u>0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>	
	327,774	2.0	325,886	1.9	
INTEREST INCOME	<u>0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>	
TOTAL	<u>\$16,292,562</u>	<u>100.0</u>	<u>\$16,972,544</u>	<u>100.0</u>	

## Budget Analysis

Two bond issues were sold during 2004, a \$15.9 million multipurpose issue in April and a \$4.65 million TIF district development issue in December. The spring issue included four series, \$8.5 million for streets, \$2.2 million for water, \$2.0 million for 7<sup>th</sup> Street TIF District improvements, and \$3.2 million for General Fund capital equipment. Duration for the first two is 13 years while the TIF and Equipment bonds are 12 and 10 years respectively. The street bonds will be repaid by property taxes while repayment for the remaining three series will come from water revenues, TIF District increment, and sales taxes respectively. The December sale included \$1.65 million for the North Main TIF for acquisition and redevelopment of a former Kmart property and \$3.0 million for infrastructure improvements for the Global Trade Park TIF at the airport. Repayment will come from TIF increment generated.

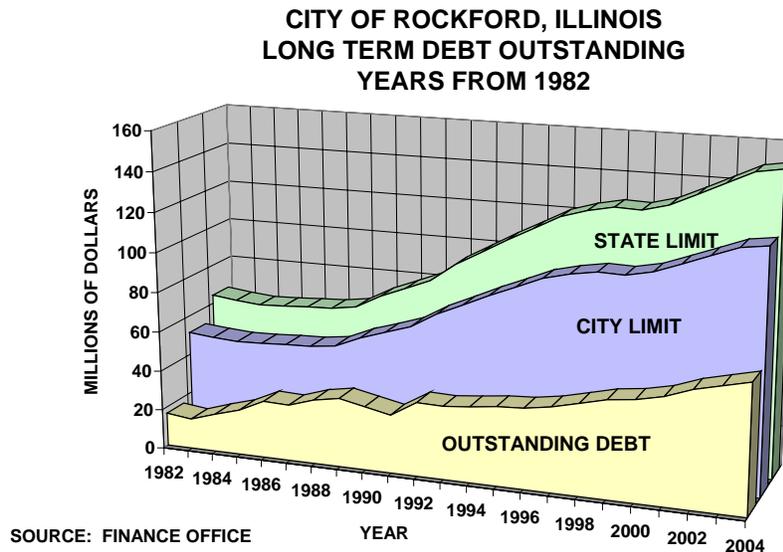
The 2005 plan calls for a \$10.9 million multipurpose issue in April to include two 13 year series, \$8.7 million for streets and \$2.2 million for water. The street and water bonds will be repaid by property taxes and water revenues respectively. The street issue, approved by referendum April 5<sup>th</sup>, adds \$773,961 to the tax levy and 4.4 cents to the tax rate for 2005. While the levy will remain approximately \$887,400 during the 13 year life of this bond issue, the rate will decrease from

# Debt Management

2005's 4.4 cents to 2017's 3.6 cents. The 2005 property tax rate for debt service is projected to be 49.1 cents; if the 2005 street issue had not been approved, the rate would have dropped to 44.7 cents, a decrease of 0.3 cents from 2004 though debt service would increase by \$187,981. With voter approval, the 2005 debt service rate of 49.1 cents represents a tax rate increase of 4.1 cents and a levy increase of \$961,942. While there are a number of issues changing and one being retired, this change occurs primarily due to the addition of the 2005 street issue.

For water, annual debt service averages \$224,800 and will be financed by the annual 3% water rate increase. Water debt service decreases \$389,200 due primarily to the effect of this issue offset by a significant drop in the 2001 refunding issue.

The General Fund sales tax transfer for annexation improvements will be \$479,410 (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 2005 sales tax transfer for debt service will be \$875,585.



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 \$150.6 million (2004 EAV). With \$67.7 million outstanding in general obligation bonds and certificates, the City is at 42% of the limit and has \$82.9 million in authority remaining. The City Council has adopted a more stringent policy, 20% less than the State limit that allows only \$120.4 million, 6.9% of EAV. Even with the stricter City policy, \$52.7 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 2006-2010 period, the City plans to sell bonds for street, redevelopment, annexation, and water improvements varying in size. Actual size and issuance

# Debt Management

depends upon the development of the annual capital improvements program and, for the general obligation bond issues, voter approval.

## DEBT SERVICE FUND 2006-2010 FINANCIAL FORECAST (IN 000'S)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Revenues	\$18,493	\$18,713	\$17,445	\$17,954	\$18,722
Expenditures	<u>18,493</u>	<u>18,713</u>	<u>17,445</u>	<u>17,954</u>	<u>18,722</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	8,900	9,100	9,300	9,500	9,700
Water Issues	2,200	2,200	2,200	2,200	2,200
Alternate Issues					
Tax Rate (Cents)	53.9	55.1	55.6	56.3	56.7