Budget and Finance Committee
Kevin Stinnett - Chair
Ed Lane – Vice Chair
Jim Gray
Linda Gorton
Chuck Ellinger
Andrea James
Tom Blues
Julian Beard
George Myers
Peggy Henson

AGENDA

BUDGET AND FINANCE COMMITTEE

February 23rd, 2010

1:00 P. M.

1. Debt and Debt Management Policy Recommendations included in the LFUCG Fiscal Policy Task Force Report dated March, 2009 – Dr. Merl Hackbart

   - Debt and Debt Management Policy Recommendations (pg 1 – 3)

2. Review and Discussion of FY 2010 Financials for January, 2010 (monthly & YTD) – Rumpke

3. Discussion of the Lexington Public Library's FY 2010 Budget – Myers

   (Library's budget has not been included due to the size, in excess of 100 pages, please See CM Stinnett's letter of 1/27/2010 with budget attached)

4. Discussion on Council Links for FY 2011 Budget Process

Debt and Debt Management Policies: Background

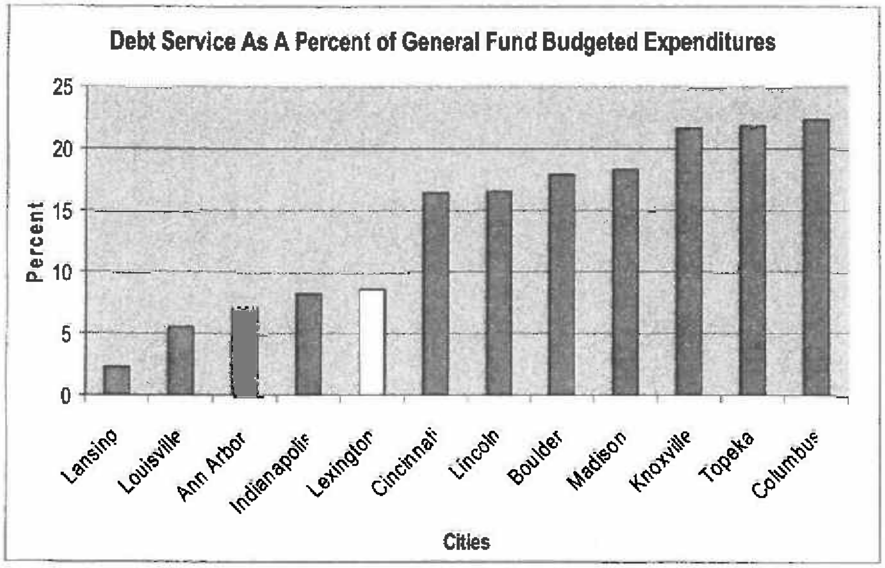
Bond and debt financing of capital facilities and infrastructure have emerged as major financing options for cities and local governments throughout the nation. Given this trend, cities and local governments are facing related policy issues such as assessing debt capacity, setting debt limits and establishing policy guidelines which insure credit rating stability or enhancement. The LFUCG has followed that national trend as it attempts to provide the infrastructure needed for economic expansion, maintain its current infrastructure and capital facilities, and comply with national and state environmental and other standards.

Cities and local governments recognize a need to establish policies to guide and manage the use of debt financing. As a result, many state and local governments have established debt management policies or plans which provide guidelines regarding the use of debt financing, the processes to be used when bonds are sold as well as guidelines to manage outstanding debt. With such guidelines, the credit agencies are assured that the government unit is using debt financing in an appropriate manner, is monitoring its outstanding debt relative to debt capacity, and planning for future debt financing needs.

While an overall debt management policy is important, more detailed guidelines regarding the type of debt to be issued is also beneficial. For example, the LFUGC normally issues "plain vanilla" bonds. To reduce the cost of capital, there are opportunities to use creative financing methods (such as imbedded call options, swaps, etc.) that, when employed, may result in future cost savings. If the LFUCG had staff with knowledge of the variety of bond financing options as credit enhancement options, there are opportunities to reduce capital costs at the time of issuance and to take advantage of refinancing opportunities and other options. Such a staff could also assess and monitor debt capacity which could be coordinated with the capital planning and budgeting processes and initiatives of the LFUCG.

Figure 4 provides a comparison of LFUCG debt service payments as a percent of General Fund expenditures compared to other cities of similar characteristics. As shown, LFUCG's relative debt service payments as a percent of General Fund expenditures are among the lowest of the cities evaluated. However, this comparison does not include debt service payments from other special revenue sources. Comparisons of debt service relative to all revenue sources as well as relative debt service by type of bond debt service obligation (revenue or general obligation bond debt service) is important in determining the overall debt position of the LFUCG and should be evaluated on a routine basis.

Figure 4: Debt Service as a Percent of General Fund Expenditures



*Toledo, OH has been omitted for inconsistencies in data availability.

Debt Policy Recommendations:

1. **The LFUCG Council should adopt a Debt Management Policy that should include:**

a. guidelines indicating when debt should be used to finance capital projects;

b. debt limits for general obligation and revenue bonds issued;
by the LFUCG as well as for special authorities established by the LFUCG,

c. procedures for assessing the available debt capacity (slack capacity) of the LFUCG that can be used to issue new debt to finance capital budget requests;

d. guidelines for managing outstanding debt including bond refinancing;

e. guidelines regarding the types of bonds that can be issued by the LFUCG or its established authorities; and

f. guidelines regarding the use of credit enhancements among other appropriate debt policy issues.

2. **The LFUCG should establish a Debt Review Committee:**

To insure that the LFUCG's debt management and debt issuance policy is dynamic and is being followed appropriately, it is recommended that a debt policy review committee be established. Such a committee could advise the mayor and council regarding the above policies as well as other debt related issues that might arise from time to time. Such a body could also vet debt issue options that might be presented from time to time by municipal security industry representatives regarding bond structures, bond refinancing, credit enhancements and the like.