# CITY OF FAIRBORN
# COUNCIL WORK SESSION
# May 19, 2025, at 5:00 p.m.
# Fire Training Room

| COUNCIL MEMBERS | Present | Absent |
|---|---|---|
| Dan Kirkpatrick, Mayor | ☒ | ☐ |
| Clint Allen, Councilman | ☒ | ☐ |
| Sylvia Chess, Councilwoman | ☒ | ☐ |
| Adam Fritzsche, Councilman | ☒ | ☐ |
| Rodney McCubbins, Councilman | ☒ | ☐ |
| Mary Reaster, Deputy Mayor | ☒ | ☐ |
| Tana Stanton, Councilwoman | ☒ | ☐ |

## STAFF MEMBERS PRESENT

Browning, Gebhart, McNamee, Taylor, and Wellbaum.

## BOND CONVERSATION

Hilary Browning, Finance Director, Heather Myers of Bradley Payne Advisors and Christopher Franzmann, Bond Counsel provided the attached Municipal Bonds and Fairborn Bond Strategy presentation. See attached Exhibit "A" for full power point and attachments. The following items were discussed:

- Municipal Bonds and their Role in Local Government Finance
- Best Practices in Bond Issuance
- Fairborn's Bond Issuance Process
- Fairborn's **Aa2** Bond Rating and What Drives Municipal Bond Ratings
- Bond Ratings: Local Miami Valley and Other Notable Government Comparisons
- Other Municipalities with **Aa2** Bond Ratings: Beavercreek, Centerville, Cincinnati, Clayton, Dayton, and Vandalia
- Municipal Bond Ratings – Moody's Comments from 2020
- Review of Long-Term General Obligation and Various Purpose Bond Anticipation Notes (BANs) totaling $7,935,773.00
- Review of Other Bonds: LTGO and Non-Tax Revenue Special Obligation Bonds
- Fairborn's Current Direct Bond Capacity
- Fairborn's Current Indirect Bond Capacity
- Recommendation: Bond Issuance Policy
- Examples of Bond Issuance Policy – Upper Arlington
- Recommendation: Implement Payoff of Non-Tax Revenue (Special Obligation) and Short-Term Water Debt
- Recommendation: Update Cash Reserve Policy established under Resolution 29-13 on March 18, 2013.

Mayor Kirkpatrick stated one of the criticisms he receives from citizens is the lack of lower income affordable housing. Council just recently approved an Ordinance to increase the size of the housing and the lots to attract nicer homes. Is that the kind of thing that raises our bond rating? Mrs. Browning agreed, having higher weighted residential values is going to be a contributing factor. Mayor Kirkpatrick stated he received a lengthy email from a gentleman over the weekend, a Fairborn resident, commenting about the lack of upper scale restaurants and businesses in Fairborn. Mrs. Browning stated this is a conversation about regionalism as well. We can't have a high-class mall and Beavercreek have two high-class malls, Centerville have one and Austin Landing have one and Mason have one. They cannot all succeed on the same population and the same economic value.

Councilman Allen stated most of the areas with a higher bond rating, if you look at the beautification of those areas, that factors in as well. How we take care of properties helps make the value of the homes go up. Mrs. Browning stated those are also high-income tax communities, so we have to look at what is best for our City.

Councilman McCubbins asked how often Moody's performs a credit review. Ms. Myers stated since the recession they are supposed to be checking in every year. They may check it internally every single year when there is a red flag. When they get the audited financials, they put them into all their algorithms, and it prints out a score card. If there is a red flag they will reach out and want at least a 30-minute call and then Mrs. Browning would reach out to our advisor, and they prepare the documentation that they require and answer any questions they may have.

Mike Gebhart, City Manager, asked what happens if the petition initiative for property taxes actually passes statewide. Does that create a red flag for every community? Mrs. Browning stated they are not ready to have that conversation.

Mrs. Browning stated they want to advance the discussion about developing a Bond Issuance Policy for the City of Fairborn, as there presently is not one. She explained there needs to be guardrails in place. Other recommendations included paying off non-tax revenue (special obligation) and short-term water debt and updating the Cash Reserve Policy.

Mike Gebhart, City Manager, stated Council must remember this is more information than finance has shared with us in years. It takes a lot of digesting, and he knows there will be plenty more questions from Council. He continues to tell Mrs. Browning he would rather have more information than not. He appreciates starting the dialogue and more discussion of what the policies should be and putting them before Council for approval. Mrs. Browning stated she would be back in June with another Finance Update and a request to start with the Bond Issuance Policy so they can be advanced before the Capital Improvement Process.

Mayor Kirkpatrick thanked everyone for their presentations.

## CITY MANAGER COMMENTS

None

## COUNCIL COMMENTS

Councilman Allen appreciates the look and the approach of trying to right the ship and give them some space because the financial decisions are stressful. Having a policy in place will help ease the pain a little bit.

Councilwoman Stanton appreciated the conversation.

Councilman McCubbins stated as a retired military member he does like policies. He is on board with that, and he thanked them for the rapid-fire financial education session.

Councilwoman Chess agreed with all of Council's comments.

Councilman Fritzsche appreciated the presentation. It filled in a lot of gaps for him.

Deputy Mayor Reaster stated it is a lot to take in, but it is all great information. She appreciated the high-level bullet points so they can work to formulate their questions and dig in and put the guardrails up.

Mayor Kirkpatrick thanked Mrs. Browning for the presentation.

## ADJOURNMENT

Deputy Mayor Reaster moved to adjourn the meeting. Councilwoman Stanton seconded. Yeas, seven: Reaster, Stanton, Allen, Chess, Fritzsche, McCubbins and Kirkpatrick. Nays, none. Motion carried. The meeting was adjourned at 5:56 p.m.

MAYOR

CLERK, CITY OF FAIRBORN

# Municipal Bonds and Fairborn's Bond Strategy

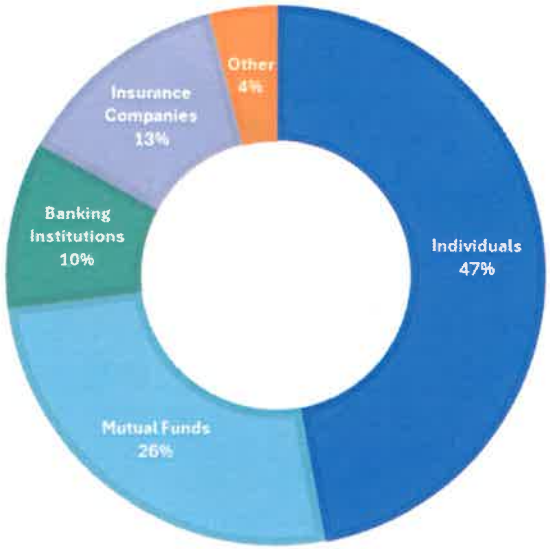



FAIRBORN
A CITY IN MOTION

# Municipal Bonds and their Role in Local Government Finance

- Per the U.S. Securities and Exchange Commission (SEC), Municipal Bonds are debt securities.
- In Ohio, general obligation bonds are governed by Section 133 of the Ohio Revised Code: Uniform Public Securities.
- Local governments in Ohio are permitted to issue general obligation bonds for the purpose of long-term capital projects and longstanding infrastructure projects.
- Local governments in Ohio are permitted to issue nontax revenue bonds for Economic Development projects, such as land acquisition and projects supported by TIFs.
- Local governments in Ohio that operate utilities are permitted to issue revenue bonds, for projects and infrastructure related to generating power and for the treatment of water and wastewater.
- Municipal Bonds are proven and safe investment instrument. As long as demand with consumers remain strong, local governments have access to capital through the issuance of Bonds.
- Per the GFOA, more than half of all individuals who own tax-exempt bonds are retirees, as a component of their retirement strategy.

***Who owns Municipal securities?***




*Source: GFOA 20 Year Average History of Holders of Municipal Securities in "A Primer on Understanding Financing Options Used for Public Infrastructure."*

FAIRBORN
A CITY IN MOTION

# Best Practices in Bond Issuance

**Integrate the debt plan with the capital improvement plan:**

- Identify needs
- Determine financial impacts
- Prioritize capital requests
- Integrate into your comprehensive long-range financial plan

**Plan of Finance:**

- Assess the objective(s) of the project
- Identify financing strategies and priorities
  - Total funds needed – other funding sources (affordability)
- Expected useful life of asset/project
- Debt limitations and debt policy
- Decide on the type of debt (e.g.GO, Revenue)
- Short-term (Notes) or long-term (Bonds) debt
- Select the method of sale that best fits the financing

FAIRBORN
A CITY IN MOTION

# Fairborn's Bond Issuance Process




FAIRBORN
A CITY IN MOTION

# Municipal Bond Ratings

| Credit Description | Moody's | S&P | Fitch |
|---|---|---|---|
| Best Quality | Aaa | AAA | AAA |
| High Quality | Aa1 | AA+ | AA+ |
| High Quality | Aa2 | AA | AA |
| High Quality | Aa3 | AA- | AA- |
| Upper Medium Grade | A1 | A+ | A+ |
| Upper Medium Grade | A2 | A | A |
| Upper Medium Grade | A3 | A- | A- |
| Investment Grade | Baa1 | BBB+ | BBB+ |
| Investment Grade | Baa2 | BBB | BBB |
| Investment Grade | Baa3 | BBB- | BBB- |
| Speculative | Ba | BB | BB |
| Speculative | B | B | B |
| Speculative | Caa | CCC | CCC |
| Speculative | Caa | CCC | CCC |
| Speculative | C | C | C |

- Creditworthiness is an important factor when considering how much ($) bonds a community can afford to issue, and whether investors will want to buy our bonds.
- Fairborn's latest bond issuance received an Aa2 rating.

### *What Drives Municipal Bond Ratings?*

- **Financial Profile:** a measure of financial resilience
- **Demographic and Economic Strength:** a measure of economic composition in the community, economic trends and growth potential
- **Long-Term Liability Burden:** Measures of debt burden and other net liabilities
- **Local Government Rating Model:** A statistical method used by Fitch called Model Supported Methodology
- **Analytical Factors**: each rating agency is different, but will look at many economic, credit and other factors
- **Legal Safeguards:** Assessment of terms, conditions and safeguards to investors

FAIRBORN
A CITY IN MOTION

# Bond Ratings: Local Miami Valley and Other Notable Government Comparisons

## Credit Ratings
## Local Miami Valley and Other Notable Governments
## (May 2025)

### Moody's Investor Services

| Aaa | Aa1 | Aa2 | Aa3 | A1 | A2 | A3 |
|---|---|---|---|---|---|---|
| Columbus | Fairfield | ***Fairborn*** | Franklin | Springfield | Chillicothe | |
| Dublin | Kettering | Beavercreek | Huber Heights | Hamilton | Mansfield | |
| Hudson | Springboro | Centerville | Monroe | | Toledo | |
| Mason | Troy | Cincinnati | Middletown | | Trotwood | |
| Montgomery | | Clayton | Moraine | | | |
| Upper Arlington | | Dayton | | | | |
| | | Vandalia | | | | |

FAIRBORN
A CITY IN MOTION

# Municipal Bond Ratings – Moody's Comments from 2020

- **Finances:** The City of Fairborn (Aa2) benefits from healthy reserves supported by recent voter approval of an income tax increase for police, emergency services (EMS), and fire operations. Increasing public safety costs have led to declines in the general fund balance over the past several years. Despite the declines, the city's available reserve levels remain strong. The income tax increase will help the city return to structural balance within the next two fiscal cycles and sustain healthy reserves.
- We expect the city to maintain healthy available reserves with voter-approval of an additional income tax levy.
- The city's ability to maintain balanced-to-positive operations and improve its reserve levels will be a key factor in future credit reviews.
- **Debt Burden:** The city maintains a manageable debt burden, including planned debt issuances over the next five years.
- **Strengths:** Voter-approved increase in income tax levy; Institutional presence from Wright Patterson Air Force base and Wright State University; Manageable debt burden, inclusive of additional debt plans.
- **Factors that could lead to an upgrade:** Significant tax base expansion
- **Factors that could lead to a downgrade:** Further deterioration of reserves; Material declines in income tax revenue

FAIRBORN
A CITY IN MOTION

# LTGO Various Purpose Bond Anticipation Notes (BANs)

| LTGO Various Purpose Bond Anticipation Notes (BANs) | | | |
|---|---|---|---|
| **Project** | **Funding Source** | **Issue Date** | **Principal** |
| Mad River Wellfield #2 replacement | Water Revenues | 2/18/2025 | 750,000.00 |
| Maple Ave. water line costruction phase 1 | Water Revenues | 2/18/2025 | 900,000.00 |
| Broad Street (Phase 2) Water Main Design | Water Revenues | 2/18/2025 | 90,000.00 |
| Broad Street (Phase 2) Water Main | Water Revenues | 2/18/2025 | 768,720.00 |
| Oak Street and Circle Drive Water Main | Water Revenues | 2/18/2025 | 663,544.00 |
| Funderburg Water Main | Water Revenues | 2/18/2025 | 400,109.00 |
| Filter Console Projects | Water Revenues | 2/18/2025 | 225,000.00 |
| 2025 Water Main Projects | Water Revenues | 2/18/2025 | 455,000.00 |
| **Sub-Total Water** | | | **4,252,373.00** |
| Municipal Court Roof | General Fund Revenues | 2/18/2025 | 150,000.00 |
| Police Complex | Police/Fire Capital Fund Revenues | 2/18/2025 | 1,600,000.00 |
| **Sub-Total General/Fire/Police** | | | **1,750,000.00** |
| Spangler Road Improvements at I-675 | I-675 Tax Increment Financing Revenues | 8/27/2024 | 1,836,400.00 |
| **Sub-Total TIF Funds** | | | **1,836,400.00** |
| Curb & Sidewalk Programs- Various Years | Special Assessment Revenues | 8/27/2024 | 97,000.00 |
| **Sub-Total Special Assessments** | | | **97,000.00** |
| **Total Various Purpose BANs** | | | **7,935,773.00** |

FAIRBORN
A CITY IN MOTION

# Other Bonds: LTGO and Nontax Revenue Special Obligation Bonds

| 1-Year Non-Tax Revenue Special Obligation Bonds | | | |
|---|---|---|---|
| **Project** | **Funding Source** | **Issue Date** | **Principal** |
| Broad Street Property Acquisition | General Fund Non-Tax Revenues | 5/20/2025 | 1,025,000.00 |
| Redevelopment Property Acquisition | General Fund Non-Tax Revenues | 5/20/2025 | 1,000,000.00 |
| Main & Third Street Economic Development Projects | General Fund Non-Tax Revenues | 5/20/2025 | 1,000,000.00 |
| Family Video Property Acquisition | General Fund Non-Tax Revenues | 5/20/2025 | 550,000.00 |
| **Total General Fund Non-Tax Revenues Special Obligation Bonds** | | | **3,575,000.00** |

| LTGO Series Bonds | | | |
|---|---|---|---|
| **Project** | **Funding Source** | **Issue Date** | **Principal** |
| Valle Green Infrastructure | Valle Green TIF, Water and Sewer Revenues | 4/16/2013 | 3,150,000.00 |
| Sanitary Sewer, Mad River Clean Mains | Water and Sewer Revenues | 9/3/2020 | 10,865,000.00 |
| **Total LTGO Series Bonds** | | | **14,015,000.00** |

| **Total Principal by Bond Type** | |
|---|---|
| LTGO Various Purpose BANs | 7,935,773.00 |
| Total Non-Tax Revenue Special Obligation Bonds | 3,575,000.00 |
| Total LTGO Series Bonds | 14,015,000.00 |
| **Total Principal Amounts in FY2025** | **25,525,773.00** |

FAIRBORN
A CITY IN MOTION

# Fairborn's Current Direct Bond Capacity

**Municipal Direct Debt Limitations***

- Unvoted debt limitation is 5.5% of total assessed valuation (AV)
- Voted + unvoted debt limitation is 10.5% of total assessed valuation
- Example: total AV of a city is $400,000,000, so unvoted debt capacity is $22,000,000 and total debt capacity is $42,000,000

| | Total | Unvoted (Limited) | Limited & Unlimited |
|---|---|---|---|
| Revenue (Outstanding) | $3,575,000 | N/A | N/A |
| Limited Tax (Outstanding) | $22,500,773 | $16,822,373 | $16,822,373 |
| Unlimited Tax (Outstanding) | $0 | N/A | $0 |
| Total Subject to Limitation | | $16,822,373 | $16,822,373 |
| G.O. Debt Exempt From Limitations | | $5,678,400 | $5,678,400 |
| Maximum Allowable | | $46,600,108 | $88,963,842 |
| Balance of Limitation | | **$29,777,735** | **$72,141,469** |

** GO debt payable from certain sources (e.g., assessments, utility revenues, TIF revenues, and in some cases income tax revenues) are exempt from this limitation.*

FAIRBORN
A CITY IN MOTION

# Fairborn's Current Indirect Bond Capacity

## Municipal Indirect Debt Limitations (10-mill)

- Millage calculation example:
  - Annual debt service for unvoted debt of a subdivision is $200,000; total AV of the subdivision is $100,000,000
  - Millage calculation:

$$\frac{\text{Total annual debt service}}{\text{Total assessed valuation}} \times 1000$$

($200,000 / $100,000,000) x 1000 = 2 mills

| Subdivision | Assessed Valuation (2024 - 2025) | Principal | Interest | Total Debt Service (2028) | Required Tax Rate |
|---|---|---|---|---|---|
| GREENE COUNTY | $6,301,203,800 | $5,268,570 | $590,522 | $5,859,092 | 0.92984 |
| **FAIRBORN CITY** | **$847,274,690** | **$1,321,833** | **$742,868** | **$2,064,701** | **2.43687** |
| XENIA TOWNSHIP | $209,314,600 | $0 | $0 | $0 | 0 |
| XENIA COMMUNITY CITY SCHOOL DISTRICT | $1,053,003,550 | $25,000 | $9,960 | $34,960 | 0.0332 |
| GREENE COUNTY CAREER CENTER JT. VOC. SCHOOL DISTRICT | $6,394,160,430 | $0 | $0 | $0 | 0 |
| GREENE COUNTY HEALTH DISTRICT MISCELLANEOUS | $6,270,442,190 | $0 | $0 | $0 | 0 |
| GREENE COUNTY PARK DISTRICT MISCELLANEOUS | $6,301,203,800 | $0 | $0 | $0 | 0 |
| | | | | Total | 3.39991 |
| | | | | Allowable | 10 |
| | | | | **Balance of Indirect Limitation:** | **6.60009** |

FAIRBORN
A CITY IN MOTION

# Recommendation: Bond Issuance Policy

Debt Management Policies should include at least the following:

- Debt Limits - Municipalities should consider criteria for evaluating when debt should be issued and set specific limits or acceptable ranges for each type of debt in their debt policies. Generally, limits are set for legal, public policy, financial restrictions, and planning considerations.
- Financial restrictions or planning considerations generally reflect public policy or other financial resources constraints, such as reduced use of a particular type of debt due to changing financial conditions. Appropriate debt limits can have a positive impact on bond ratings, particularly if the municipality demonstrates adherence to such policies over time. Financial limits often are expressed as ratios customarily used by credit analysts. Different financial limits are used for different types of debt.
- The Policy should include specific guidelines regarding the debt structuring practices for each type of bond.
- The Policy should provide guidance regarding the issuance process, which may differ for each type of debt.
- The Policy should provide guidance for ongoing administrative activities or practices.
- The policy should take into consideration favorable or non favorable market conditions.

FAIRBORN
A CITY IN MOTION

# Example: Bond Issuance Policy- Upper Arlington, Ohio

**Purpose and Scope of Upper Arlington's Deb Issuance Strategy**
This policy guides the City of Upper Arlington in the prudent use of debt and cash to finance its Capital Improvement Plan (CIP). It aims to:
•Support decisions between cash funding and debt issuance, Minimize debt and issuance costs, Retain high credit ratings and maintain financial transparency and adaptability under changing circumstances.

**Funding Mechanisms**
**1. Cash Funding**
Cash funding is encouraged whenever feasible, particularly when:
•Asset life is ≤ 5 years, when the project is recurring maintenance and when interest rates are historically high or volatile.
**Funding Source:** 28% of annual income tax is allocated to the Capital Asset Management Fund, prioritizing debt service, with the remainder for cash-funded projects.

**2. Debt Financing**
**Short-Term Debt (≤ 1 year)**
Primarily in the form of Bond or Revenue Anticipation Notes, used for:
•**Pay-As-You-Go Financing**: Covered through short-term notes expected to be paid within a year (might be a good point to have or include exceptions).
•**Interim Funding**: Bond anticipation notes for projects < $5 million pending long-term bond issuance (set a proper amount for Fairborn or include exceptions).
**Long-Term Debt**
Recommended when:
•Project life ≥ 10 years, when the funding needs ≥ $5 million, when Capital fund to debt payment ratio ≥ 2:1 over seven years, when Interest rates (20-Bond Index) ≤ 85% of its 20-year average and if debt does not lower the City's Moody's rating below "Aa".

FAIRBORN
A CITY IN MOTION

# Example: Bond Issuance Policy- Upper Arlington, Ohio Continued

**Additional Guidelines found in Upper Arlington's Policy:**

- Variable rate debt not to exceed 20% of total outstanding debt.
- Non-tax/special revenue bonds must attain at least Moody's "A2" or S&P "A".
- Target beneficiaries should directly bear the cost in special assessment or revenue bonds.

**Administrative Procedures**

- **Compliance**: Must meet federal tax law and disclosure requirements.
- **Debt Terms**: Final maturities should not exceed project lifespans.
- **Amortization**: Target 50% debt repayment within 10 years.
- **Debt Instruments**: Includes various general obligations, revenue bonds, capital leases, and special obligations.
- **Bond Retirement Fund**: Aim to maintain a balance equal to the highest semi-annual payment.
- **Refinancing**: Pursued if present value savings ≥ 3%, though restructuring is allowed.
- **Insurance**: Evaluated but generally not cost-effective due to high credit rating.
- **Hedging**: May use interest rate hedges but avoid contracts involving basis risk.
- **Professional Services**: Evaluated every 5 years for quality and conflict of interest.
- **Policy Review**: Annually reviewed with other financial policies upon Council organization.
- **Reimbursement Resolutions**: Required yearly if debt issuance is expected

FAIRBORN
A CITY IN MOTION

# Recommendation: Implement Pay-off of Non-Tax Revenue (Special Obligation) and Short-Term Water Debt

**Benefits of Paying Off Debt:**

- Improves financial stability by allowing municipalities to better manage their finances and avoid liquidity issues
- Reduces the rollover risk of not being able to sell the Notes in the market and interest rate risk (high rates)
- Improves cash flow - Short-term debt can be used to cover temporary cash flow shortages or bridge the gap until long-term financing is secured. However, relying heavily on short-term debt can lead to unpredictable cash flow and potential issues with repayment if the municipality's financial position weakens.
- Potential to lower overall borrowing costs in the future by issuing long-term bonds with lower interest rates, reducing overall borrowing costs and a possible rating increase
- Focus on long-term investments by freeing up resources that can be used for long-term investments, such as infrastructure projects, community development and other initiatives
- Enhances credibility and investor confidence by demonstrating the ability to manage and reduce short-term debt, it can enhance a municipality's credit rating and improve investor confidence, potentially leading to more favorable terms when issuing new debt.

FAIRBORN
A CITY IN MOTION

# Recommendation: Update Cash Reserve Policy

- The General Fund Reserve Fund Balance Policy was adopted via Resolution 39-13 on March 18, 2023.
- It stipulates a target balance of 17%, and a minimum of 12% for the General Fund.
- Evaluate whether 25% target and 17% minimum is more appropriate, given Fairborn's growth and current expenditure pressures.
- Evaluate cash reserves in Police, Fire, Streets, Water, Sewer and Sanitation Operating funds, which are not stipulated in the current policy.
- Review Capital Reserve and Depreciation fund balances, to ensure the City has sufficient capital reserves. Recommend target and minimum balances for these funds, to ensure that there is sufficient cash for current and future capital needs.
- Current Surplus Reserves are directed to be spent on "one-time" expenditures that do not result in additive, recurring operating costs. We recommend maintaining this practice.
- We also recommend consideration for adding language that surplus reserves could also be used for debt retirement.
- These recommendations are based on a review of the current GFOA best practice reserve policies from multiple Ohio cities (Xenia; Brooklyn; Upper Arlington; Centerville)

| Fund | 2024 Year-End Balance |
|---|---|
| General | 14,661,250 |
| Fire | 2,249,994 |
| Police | 3,417,989 |
| Street | 8,515,301 |
| Garage | 133,132 |
| Water | 1,606,640 |
| Sewer | 7,143,196 |
| Sanitation | 880,689 |
| Capital | 7,698,757 |
| All Other Funds | 8,929,803 |
| **Total Fund Balance** | **55,236,750** |

FAIRBORN
A CITY IN MOTION

Questions?

**City of Upper Arlington**
**Debt Policy**

**PROPOSED AMENDED POLICY**

## Introduction

This Debt Policy Statement is a companion document to the City's Capital Improvement Plan (CIP). The purpose of this policy is to guide City officials as they consider the proper use of debt and cash funding to pay for ongoing capital improvements. The primary objective of this policy is to summarize certain conditions that support the use of debt, or cash, for capital improvements and to define best practices for minimizing debt payments and issuance costs and retaining the highest credit rating possible, and maintaining full and complete financial disclosure and reporting. The debt policy is considered necessary to help guide City officials as deemed appropriate to maintain sound financial management practices. This policy is also designed to be flexible in its application to allow for exceptions to the guidelines under changing and extraordinary circumstances.

## Overview

One of the primary decisions made regarding financing the City's CIP is whether to use cash on hand, interim debt financing, or debt, including notes and bonds, as the funding source. This policy sets forth guidelines for this decision by identifying the parameters within each funding source that is considered appropriate. These parameters are defined below and set forth in the table on page three. The second part of this policy establishes recommended administrative procedures for managing the City's debt.

## Cash Funding

City policy encourages funding capital projects with cash, on a "pay as you go" basis, to the extent possible and prudent. The City allocates 28% of its income tax collections to the Capital Asset Management Fund for capital projects each year. The revenue is used first for annual debt payments, with the remaining amount available for cash funded projects. Cash funding is recommended under the following circumstances:

a) To finance purchases of assets whose lives are five (5) years or less.

b) To finance recurring maintenance expenditures (e.g., street repair vs. street reconstruction).

c) When market conditions are unstable or offer only historically high interest rates.

## Debt Financing

Short term debt financing:

This policy defines short-term debt as securities with final principal and interest payments due in one-year or less from the date of issuance. Typically, this type of borrowing takes the form of "short-term" bond or revenue anticipation notes. Short-term bond anticipation notes may be issued as described below to facilitate a "pay as you go" financing program, or to provide interim funding for a "long-term bond" financing.

a) Pay-As-You-Go: Certain projects in the capital plan are best suited to cash funding on a pay-as-you-go basis. For example, projects with useful lives of less than five years. For purposes of this policy, "pay-as-you-go" financing includes selling short-term notes with the expectation of paying the notes off in full within one year of initial issuance.

b) Interim Funding for long-term bond financing: Short-term notes are also appropriately used in anticipation of refunding them at a future date with long-term bonds. Typically, such notes are referred to as "bond anticipation notes": Bond anticipation notes are most suitable under the following conditions:

- ✓ Notes are used as a temporary funding source prior to and anticipation of the completion of a bond sale.

- ✓ The immediate need for financing is less than $5 million.

Long-term debt financing:

It is prudent policy to use notes and bonds for long-term capital asset funding under the parameters set forth below. No single parameter stands alone; they must all be considered under the then current circumstances and in relation to the others. The parameters are as follows:

a) Variable rate bonds or short-term notes are suitable to use for long-term financing under the following certain conditions: i) When either is used for long-term financing, the City will schedule annual principal payments similar to a hypothetical fixed rate bond issue that satisfies the City's debt policy bond parameters herein, and ii) To minimize overall interest rate risk, the City's outstanding variable rate borrowings will not exceed twenty percent (20%) of the City's overall outstanding debt. (Short-term bond anticipation notes may be issued for an aggregate amount greater than 20% of the City's outstanding debt, but such notes will be refinanced as necessary within two-years of issuance to meet the 20% target.)

b) Long-term bonds are recommended for projects with useful lives of ten years or longer and for amounts of $5 million or greater.

c) Debt is acceptable as long as the ratio of available capital fund dollars to debt payments, projected forward seven years, does not fall below 2 to 1. (For purposes of this guideline, debt payments are defined as general obligation and income tax special revenue bond debt payments, including projected payments for the refunding of outstanding general obligation or income tax special revenue bond anticipation notes.)

d) Long-term bonds are considered especially appropriate when average long-term interest rates, as indicated by the Bond Buyer *General Obligation 20 Bond Index*, are at or below eighty-five percent of the index's twenty-year average. Long-term bonds are considered less appropriate when average rates for the index are at or above one hundred and fifteen percent of the index's twenty-year average. The City will make every effort to structure the terms of its bonds to match the status of the market at the time.

e) Long-term general obligation, non-tax revenue, and special revenue bonds (such as income tax revenue bonds) bonds will not be issued if the City's Director of Finance and its Municipal Financial Advisor believes such issuance will cause the City's underlying general obligation credit metrics to become weaker than a Moody's "Aa" rating. Further, non-tax revenue and special revenue bonds will not be issued if the Finance Director and Municipal Advisor believe any such issuance will be assigned a rating equivalent to or lower than Moody's "A".

f) Non-tax or assessment revenue bond long-term debt, but not general obligation debt, is appropriate for project funding where the tax or revenue burden rests directly on a select group of taxpayers or beneficiaries, such as for project revenue bonds, special assessment projects, tax increment financings, or economic development projects. Any financing of this type must receive a rating of "A2" Moody's or "A" Standard & Poor or higher to receive City approval.

The following table provides a quick reference source for these policies.

| PARAMETERS | FUNDING SOURCES | | |
|---|---|---|---|
| | Cash | Short-term Notes | Long-term Bonds |
| Project life is less than 10 years | x | x | |
| Project life is 10 years or greater | | x | x |
| Recommended temporary funding prior to a bond sale | x | x | |
| Recommended variable rate funding mechanism | | x | |
| The amount borrowed is less than $5,000,000 | | x | |
| The amount borrowed is $5,000,000 or larger | | | x |
| | | | |
| | | | |
| Ratio of available capital fund dollars to income tax supported debt payments is 2 to 1 or greater | | x | x |
| Bond Buyer 20-Bond Index is at 85% of 20-year average | | | x |
| Bond Buyer 20-Bond Index is at 115% of 20-year average | x | x | |
| General obligation and income tax special revenue debt funding will cause underlying credit values to fall below measurements consistent with a Moody's rating of "Aa" rating | x | | |
| Non-tax and special assessment bond financings are expected to achieve a Moody's or Standard and Poor's rating of Single A or better | | | x |
| Payment for debt will be made by a select group of taxpayers or other beneficiaries | | x | x |

## Recommended Administrative Procedures

**Federal tax law** - All financings must comply with the timing restrictions set forth in federal tax law. In addition, the size and timing of notes or bonds may be affected by opportunities provided in the tax code, such as rebate exemptions and so on. City officials will retain professional assistance to help compute rebate within the prescribed schedule.

**Note and Bond Maturities** – Final maturities shall not exceed the average maximum useful life of the projects included in the financing.

**Amortization Schedule** - City officials will strive to structure the repayment of general obligation and special revenue income tax supported notes and bonds to achieve an aggregate pay-out ratio for all such debt of fifty percent (50%) or more of its entire outstanding debt within ten years. Non-tax revenue, special assessment and other debt specifically issued to support economic development project agreements will mature in line with the life of the supported agreement, or sooner.

**Debt instruments** – The City will use the most efficient and economical debt alternative for its debt financings including: voted general obligation notes and bonds; unvoted general obligation notes and bonds; non-tax revenue bonds; special assessment and tax increment notes and bonds; capital leases; special obligations; revenue bonds, or any other appropriate funding source provided for in the Ohio Revised Code. All of these instruments are considered "debt" for purposes of this policy.

**Bond retirement fund** – the City will attempt to maintain a bond retirement fund year-end balance equal to its maximum scheduled semi-annual debt payment.

**Continuing Disclosure** – The City will comply with its continuing disclosure obligations and comply with its disclosure requirements as provided in its Continuing Disclosure Certificates associated with its various securities offerings outstanding. The City may retain a "disclosure agent" to assist with its compliance duties.

**Refinancing Opportunities** – City officials will monitor opportunities to refinance its outstanding bonds with "current" refunding bonds, "advance refunding bonds" and "forward purchase" bonds. To ensure an efficient use of staff and resources, officials will strive to limit refinancing bond issues to those that save a minimum of an estimated 3% of existing payments on a present value basis. However, this policy does not preclude using refinancing bond issues solely to restructure the payments on existing bonds.

**Bond Insurance** – City officials will explore the value of purchasing bond insurance for its bond sales but they understand that purchasing insurance is not likely to benefit the City because of its high bond rating.

**Economic Development** – City officials will consider opportunities to foster economic development by issuing debt. Economic development debt offerings may include tax increment financings, special non-tax revenue and special assessment notes and bonds, and serving as the conduit for industrial revenue bonds. Other than for certain special assessment project financings, the City does not intend to offer its faith and credit as support for these financings. The City may also participate in economic development focused transactions supported by City revenues but where the debt is issued by a conduit borrower, such as the Columbus Port Authority, for example.

**Interest Rate Hedges** – The City may consider using the interest rate hedges provided for in Ohio law to the extent they are appropriate for limiting future interest rate risk or lowering the overall debt payments for the City's outstanding debt. City Council will not be asked to authorize any hedges without first receiving a full disclosure of the possible risks and rewards. Under no circumstances will the City enter into derivative contracts exposing the City to "basis risk" as defined by general industry guidelines.

**Professional Services** – Underwriters and Municipal Advisors retained by the City in connection with the City's debt program shall provide full disclosure to the City of any formal or informal relationships or agreements that may be in conflict with the best interest of the City. The City shall retain professionals in connection with its debt issues based upon demonstrated qualifications, including past successful performance. Officials will review its relationships, or request statements of qualification, from qualified providers not less than every fifth year.

**Review of Debt Policy** - Upon Council organization, review of the Debt Policy shall occur in conjunction with the review of the Financial Policies.

**Resolution of Reimbursement** - A resolution of reimbursement shall be passed at the beginning of any year in which the issuance of debt is anticipated.

DATE March 18, 2013
ITEM NO. 9
ORD. NO.
RES. NO. 39-13

**CITY OF FAIRBORN**
**FINANCE DEPARTMENT**
**44 W. Hebble Ave.**
**Fairborn OH 45324-4999**
**(937) 754-3005**
**Fax (937) 754-3115**

## MEMORANDUM

**TO:** Deborah McDonnell, City Manager

**FROM:** Randy Groves, Finance Director RJG

**DATE:** March 14, 2013

**SUBJECT:** Res. 39-13, General Fund Reserve Fund Balance Policy

The finance department has drafted a financial policy entitled ***General Fund Reserve Fund Balance*** in response to direction from council to formalize a policy relating to the target reserve fund balance for the General Fund. The components of this policy address (a) the purpose and scope of the city's fund balance reserve, (b) fund balance components and definitions, (c) a discussion of appropriate fund balance reserve levels, (d) recommended target and minimum reserve levels, (e) replenishing reserves, and (f) utilization of surplus reserves.

The fund balance reserve policy has been discussed at two work sessions, most recently on March 11th. Council unanimously supported the last draft of the policy presented for discussion and agreed that it should be adopted by council resolution. Therefore, Resolution 39-13 is presented for council to adopt the financial policy, ***General Fund Reserve Fund Balance.***

# RESOLUTION NO. 39-13

ADOPTING A GENERAL FUND RESERVE FUND BALANCE POLICY.

WHEREAS, maintaining reserves in the General Fund provides a stable financial base sufficient to cover the risks of revenue shortfalls and unanticipated expenditures or provides an accumulation of resources that might be utilized for opportunities that may arise; and

WHEREAS, maintaining an appropriate level of reserves helps preserve the fiscal health of the city and stability of its operations; and

WHEREAS, establishing a reserve fund balance policy for the General Fund demonstrates prudent management of the city's financial resources and is an important step to ensure the sustained financial stability of the city.

NOW, THEREFORE, THE COUNCIL OF THE CITY OF FAIRBORN HEREBY RESOLVES:

SECTION 1. The General Fund Reserve Fund Balance Policy attached hereto and marked Exhibit A is hereby adopted.

SECTION 2. That this Resolution shall take effect immediately upon its passage.

MAYOR

PASSED: MAR 18 2013

EFFECTIVE: MAR 18 2013

ATTEST:

CLERK, CITY OF FAIRBORN, OHIO

*MICHAEL A. MAYER*
*CITY SOLICITOR*
*CITY OF FAIRBORN*
*510 W. MAIN STREET*
*FAIRBORN, OHIO 45324*

Exhibit A

# CITY OF FAIRBORN
# FINANCE DEPARTMENT
# FINANCIAL POLICIES

## General Fund Reserve Fund Balance

### INTRODUCTION

The City of Fairborn recognizes the importance of maintaining reserves in the General Fund to provide a stable financial base sufficient to cover the risks of revenue shortfalls and unanticipated expenditures or provide an accumulation of resources that might be utilized for opportunities that may arise. Establishing a reserve fund balance policy for the General Fund demonstrates prudent management of the city's financial resources and is an important step to ensure the sustained financial stability of the city.

The General Fund is the city's main operating fund and accounts for the activity of the city's general government services and municipal court operations while also subsidizing other city operations through transfers to the funds that have been established to account for those services. For example, transfers are made annually to support fire and police operations, cemetery operations, the victim witness assistance program, and street lighting to name a few.

The depressed economic conditions of the lingering recession coupled with significant cuts by the State of Ohio to long-time shared revenues have placed significant stress on the financial condition of the General Fund over the last several years. The city has been able to hold on fiscally through targeted budget cuts, a city-wide effort at spending restraint, and most recently through the help of voters who approved for the first time in 29 years a property tax increase that boosts revenues, at least for the next five years, for fire and police operations. As a result, the city's current financial condition and projected outlook through the last collection year of the property tax levies is good. As we move forward council and city administration recognize the importance of maintaining appropriate reserves in order to preserve the fiscal health of the city and stability of its operations during this period.

### PURPOSE AND SCOPE

The General Fund Reserve Fund Balance Policy is established to identify an appropriate target reserve balance and minimum reserve balance for the General Fund. Further, a framework is established by which the General Fund's target reserve and minimum reserve may be used and replenished, and guidance is provided for the continued monitoring and reporting of the city's General Fund reserves.

The target and minimum fund balance reserves established in this policy are point-in-time thresholds but they must be monitored and maintained based upon a long-term perspective. Budgetary actions and reactions to fund balances greater or lesser than the established thresholds must be made based on a consideration of not just the current

fiscal year, but at least five years into the future. Maintaining a long-term perspective provides the best chance that sufficient fund balance reserves can be sustained over the long term.

## FUND BALANCE DEFINED

The City of Fairborn's financial system utilizes a budgetary basis of accounting to record and report the financial activity of the city throughout the year. Monthly financial statements, council summary reports, quarterly reports, and year-end reports are all prepared using the budgetary basis of accounting. Subsequent to year-end, the budgetary basis annual financial statements are converted under generally accepted accounting principles (GAAP) to accrual/modified accrual basis statements and a comprehensive annual financial report (CAFR) is prepared.

"Fund balance" on a budgetary basis of accounting is simply the accumulated difference between a fund's receipts and expenditures. The budgetary basis fund balance is expressed as an unexpended cash balance or as an unencumbered balance (where total expenditures include outstanding encumbrances). Fund balance calculated in accordance with GAAP is the difference between assets and liabilities of the fund, and is typically referred to as "net assets." Whichever basis of accounting is used, the fund balance (net assets) is intended to measure the amount of financial resources available in the fund at the point in time it is calculated.

Since the city's financial system utilizes the budgetary basis throughout the year this fund balance policy, including all discussion, rationale, terms, and ultimately the target balance and minimum reserve balance incorporated herein, have been established and shall be applied throughout a fiscal year relative to budgetary basis financial activity. General Fund target and minimum reserve balance calculations will also be performed using the GAAP basis statements following the completion of the CAFR.

A fund balance as seen in the city's CAFR (GAAP basis), is required to be divided into five components that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints imposed on the specific purposes for which resources in the fund can be spent. The General Fund balance is classified as follows:

**Restricted Fund Balance Components:**
*Nonspendable* – resources that cannot be spent because they are either a) not in spendable form, or b) legally or contractually required to be maintained intact.
*Restricted* – resources with constraints placed on their use which are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or local enabling legislation.

**Unrestricted Fund Balance Components:**
*Committed* – resources which are subject to limitations the government imposes upon itself at its highest level of decision making (city council) and that remain binding unless removed in the same manner.
*Assigned* – resources neither restricted nor committed for which a government has a

stated intended use as established by the city council or a body or official (management) to which the city council has delegated the authority to assign amounts for specific purposes.
*Unassigned* – resources which cannot be properly classified in one of the other four categories. (The General Fund is the only fund that reports a positive unassigned fund balance amount.)

As mentioned above, the monthly and quarterly financial reports prepared throughout the year present only a cash balance or unencumbered balance since a budgetary basis of accounting is used. There are no further classifications to the budgetary basis fund balance.

## FUND BALANCE RESERVES

By Ohio law and, of course, prudent financial management, the city must maintain a positive cash fund balance. However, the exact level at which the city strives to maintain the fund balance – sometimes referred to as a "fund balance reserve" or a "target fund balance" – is completely the city's decision.

Fund balance reserves are maintained at varying levels among governments depending on the specific circumstances of the government. Fund balance reserves for the City of Fairborn are relied upon to:

1. Mitigate one-time or short-term reduction in revenues.
2. Mitigate short-term economic downturns.
3. Provide funds for unanticipated, and thus unbudgeted, operating needs that arise during the fiscal year.
4. Sustain city services at greater than normal operational levels in the event of an emergency or disaster.
5. Provide a sufficient cash flow in case of delays in the collection of property taxes, grant proceeds, and other operating revenues.
6. Provide funding for unexpected claims or settlements.
7. Provide funding for future equipment and capital project needs so as to minimize future debt obligations.
8. Demonstrate the city's sound financial condition and creditworthiness to the major municipal credit rating agencies, and thus reduce debt issuance costs.

Fund balance reserves should be set at a level where the city is comfortable that the reserved balance is sufficient to mitigate the above risks or unforeseen fiscal events having a short-term detrimental financial effect to the city. Settling on a preferred target balance adequate for the city is determined based on a consideration of a variety of factors, including the predictability of revenues, volatility of expenditures, availability of resources in other funds, liquidity of resources, and the existence of formal designations of the fund balance. The following evaluation addresses each of these as they relate to the City of Fairborn as of the date of this policy:

*Predictability of revenues* - Higher levels of fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations. Estate taxes, although now eliminated in Ohio, are a good example of this as they were somewhat

unpredictable. Cities whose estate taxes are a significant source of revenues might carry a higher fund balance to cover a temporary drop in these revenues. Fairborn's most significant revenue sources (income taxes, property taxes, and enterprise management fees) are relatively stable and potential reductions in these revenues generally can be anticipated and planned for.

*Volatility of expenditures* – The volatility of operating expenditures may drive a need for a higher fund balance reserve. However, this is not the case for Fairborn (and cities in general) as approximately 75% of operating expenditures are on personnel and are very consistent and predictable.

*Availability of resources in other funds* - The availability of resources in other funds may reduce the need for a higher fund balance carried in the General Fund. For example, if a fund has been set up to accumulate surplus General Fund revenues for capital improvements and/or budget stabilization, those monies might be relied upon if needed if the authority to use those funds in such a manner had been provided when the fund was established. No such funds are currently set up in Fairborn. A very limited amount is currently available in the Self Insurance Trust Fund if needed.

*Reliance of other funds on General Fund resources* – Depending on the level of legal commitment, if the General Fund contributes to a project or operation accounted for in another fund, a higher fund balance may be required in order to guarantee sufficient funds are available for that commitment as well as be available for other unanticipated emergencies. For example, a city that operates a golf course must subsidize the course operations and debt payments that are not covered by the golf course revenues. The amount required to subsidize those operations might fluctuate from year to year so the city might carry a higher fund balance to mitigate the risk of an unanticipated and significantly bad year of operations. While Fairborn subsidizes the fire, police, and cemetery operations they are very predictable and, with our ability to monitor their budgets, any further drain on the General Fund would be readily anticipated and somewhat controllable.

*Liquidity of resources* – If budgeted resources are not relatively liquid (i.e., a significant delay exists before revenues are received and available for expenditure) a higher fund balance may be required. This is not an issue with Fairborn as our most significant revenues are received fairly consistently on a monthly or quarterly basis.

*Existence of restrictions or formal designations of the fund balance* – Formal fund balance restrictions, commitments, or assignments as described above prohibit the use of the designated amount for anything other than for what it has been designated. A higher fund balance may be necessary to compensate for the portion of the designated fund balance. For example, if the city planned to purchase a piece of property and decided not to issue debt to pay for it, a portion of the fund balance could be committed for that future acquisition. A higher fund balance might then be maintained to cover other unanticipated shortfalls. Fairborn currently has *nonspendable* unclaimed funds and *assigned* encumbrances as part of its General Fund balance.

As of the date this policy is adopted, none of the above factors currently present a reason to increase the General Fund reserve balance above the particular target balance established by council and incorporated in this policy.

**RESERVE REQUIREMENTS**

The Government Finance Officers Association of the United States and Canada (GFOA) has provided guidance on various aspects of the General Fund balance including recommendations for a minimum or target fund balance and strategies to consider for replenishing the fund balance following a reduction below an established minimum. In 2011, the GFOA updated its recommendation for a reserve balance to two months (16.67%) of regular operating revenues or expenditures regardless of the size of the government.

***Target Reserve Balance***: The City of Fairborn hereby establishes a year-end target reserve balance for the General Fund of 17% of operating expenditures, which approximates two months of operations and provides a sufficient resource margin and period of time to react to unforeseen fiscal challenges. City administration shall strive to maintain the General Fund balance at or above the 17% level at the conclusion of each fiscal year. However, it is recognized that circumstances or events may occur from time to time that cause the actual year-end reserve balance to dip below the target reserve balance. In all such cases this shall be temporary only and steps shall be taken to restore the fund balance to the target reserve level in a timely manner, preferably in the subsequent fiscal year. At no time should the reserve balance fall below the *Minimum Reserve Balance.*

***Minimum Reserve Balance:*** The City of Fairborn hereby establishes a year-end minimum reserve balance for the General Fund of 12% of operating expenditures. While it is recognized the year-end reserve balance may fall below the target reserve balance, at no time should the reserve balance fall below the minimum reserve balance at the conclusion of a fiscal year. If, at the conclusion of a fiscal year, the reserve balance falls below the minimum reserve balance, a plan shall be prepared and presented to council to restore the fund balance to the target reserve level.

**REPLENISHING RESERVES**

If at the end of a fiscal year the General Fund balance is less than the minimum reserve balance as established in this policy a plan shall be developed by city administration to replenish the fund balance to the target reserve balance level. Replenishment plans may consider the following strategies (among others) in order to restore the fund balance to the target reserve level:

1. If revenues are exceeding expenditures, use a portion of the surplus to incrementally build the fund balance.
2. Designate one-time or non-recurring revenues for fund balance replenishment.
3. Reduce expenditures through efficiencies.
4. Increase fees for services or create new service fees.
5. Seek tax rate increases.
6. Reduce or eliminate services.
7. If possible, shift expenses to other parties/funds.

Replenishment plans should be presented to council at a work session within three months following the end of the fiscal year in which the fund balance falls below the minimum reserve balance level. Replenishment plans shall be designed to restore the General Fund balance to the target reserve level as soon as economic conditions allow but over a period of time that does not exceed five years.

## Utilization of Surplus Reserves

In the event the General Fund balance exceeds the target reserve balance the surplus reserves may be expended for any lawful purpose subject to the same budgetary requirements and council approvals as for all other expenditures of the city. Use of surplus reserves should be limited to one-time expenditures which do not result in recurring operating costs, or to establish or increase a fund balance designation as identified above (restriction, commitment, or assignment).

## Monitoring and Reporting

The Finance Director shall monitor on a monthly basis throughout a fiscal year the city's projected year-end General Fund balance relative to the target reserve balance and the minimum reserve balance established in this policy. For purposes of the monthly monitoring, the year-end balance shall be projected using the current budgeted revenues and appropriations at month-end with the assumption that 100% of the budgeted revenues will be received and 100% of the budgeted appropriations will be expended.

The Finance Director shall report to the City Manager and council quarterly the status of the projected year-end General Fund Balance relative to the target reserve balance and the minimum reserve balance. The target reserve balance and the minimum reserve balance shall also be monitored for each individual fiscal year-end in the 5-year projection that is maintained on an ongoing basis.

## Conclusion

The General Fund Reserve Fund Balance Policy provides the formal framework for maintaining a stable financial base for the city. This policy should be reviewed periodically to ensure the established target reserve and minimum reserve balance levels remain appropriate for the city. Recommendations for any amendments, deletions, additions, improvements, or clarification to this policy shall be made in the same manner in which this initial policy is adopted.

Resolution No. 39-13
March 18, 2013