ORDINANCE NO. 2022-21

AN ORDINANCE ADOPTING A DEBT MANAGEMENT POLICY FOR THE VILLAGE OF CHERRY VALLEY, ILLINOIS AND AMENDING CHAPTER 2 ADMINISTRATION, ARTICLE VI FINANCE, DIVISION 1

WHEREAS, the Village of Cherry Valley ("Village") wishes to adopt a Debt Management Policy ("Policy") governing the issuance of debt by the Village; and,

WHEREAS, the Village Treasurer has proposed a Policy for the Village attached to this Ordinance as Exhibit A; and,

WHEREAS, the Village wishes to adopt the Policy proposed by the Village Treasurer; and,

WHEREAS, the Village has enacted Code of Ordinances ("Code"); and,

WHEREAS, Chapter 2, Article VI of the Code sets forth rules and regulations regarding Village Finance procedures; and,

WHEREAS, the Village wishes to amend Chapter 2, Article VI of the Code to reflect the adoption of the Policy.

NOW THEREFORE, be it ordained by the President and Board of Trustees for the Village of Cherry Valley, Illinois, as follows:

SECTION 1: The Debt Management Policy attached to this Ordinance is hereby approved.

SECTION 2: Chapter 2, Administration, Article VI, Finance, Division 1, Generally, of the Code of Ordinances for the Village of Cherry Valley, shall and hereby is amended, by adding the following:

Sec. 2-546- Debt Management Policy

The Village shall have in place a Debt Management Policy setting forth rules governing the issuance of debt by the Village. The Debt Management Policy shall be amended from time to time as is necessary. The Debt Management Policy shall be available in the office of the Village Treasurer.

SECTION 3: All other provisions of Chapter 2 of the Village Code of ordinances shall remain in effect unchanged and unamended by this Ordinance.

SECTION 4: This Ordinance shall be in full force and effect ten (10) days after its approval, passage and publication in pamphlet form as required by law.

PASSED UPON MOTION BY: NANCY BELT

SECONDED BY MIKE NEVILLE

BY ROLL CALL VOTE THIS 3RD DAY OF MAY, 2022

AS FOLLOWS:

VOTING "AYE":	NANCY BELT, JEFF FUSTIN, SALLY HOLLEMBEAK, MIKE NEVILLE, BRANDI PEARSE, CARL WEDIG
VOTING "NAY":	NONE
ABSENT, ABSTAIN, OTHER:	NONE

APPROVED MAY 3, 2022

ATTEST:

Kathy Trimble

KATHY TRIMBLE, VILLAGE CLERK

DAVID SCHROEDER, VILLAGE PRESIDENT

Village of Cherry Valley
DEBT MANAGEMENT POLICY

May 2022

Contents

1.0 PURPOSE

The Village of Cherry Valley developed this Debt Management Policy to help ensure the Village's credit worthiness and to provide a functional tool for debt management and capital planning.

The Village of Cherry Valley faces continuing capital infrastructure requirements to meet the increasing needs of its citizens. The Village limits long-term debt to only those capital improvements that cannot be financed from current revenues. The Village of Cherry Valley will not use long-term debt to fund operating programs.

The costs of the capital requirements will be met through the issuance of various types of debt instruments. Consequently, the Village needs to anticipate increases in debt levels based upon historical data. With these increases, the effects of decisions regarding the type of issue, method of sale, and payment structure become ever more critical to the Village's financial well-being. To help ensure the Village's credit worthiness, an established program of managing the Village's debt becomes essential.

To this end, the Village Board recognizes this "Debt Management Policy" to be financially prudent and in the Village's best economic interest. This policy will provide a functional tool for debt management and capital planning, and enhance the Village's reputation for managing its debt in a conservative and prudent manner. In addition to adherence to this policy, The Village's financing will also be in compliance with applicable Federal law, U.S. Securities and Exchange Commission (SEC) regulations, and Illinois Compiled Statutes (ILCS).

2.0 Goals Related to the Issuance of General Obligation and Revenue Bond Debt:

The Village shall pursue the following goals below when issuing debt. Though the Village may not have achieved all these goals as of yet, these are long term objectives for which we must continue to strive toward.

1. Maintain at least an Aa+ or equivalent credit rating for each general obligation debt issue and an AA credit rating for each revenue bond debt issue.

2. Take all practical precautions to avoid any financial decision which will negatively impact current credit ratings on existing or future debt issues.

3. Effectively use debt capacity in relation to Village population growth and the tax base, or utility rate base to meet long-term capital requirements. The highest priority for the issuance of debt shall be to fund a portion of the Village's Capital Improvement Plan.

4. Consider market factors when setting a sale date.

5. Determine the amortization (maturity) schedule which will best fit with the overall debt structure of the Village's general obligation debt and related tax levy at the time the new debt is issued. For issuance of revenue bonds, the amortization schedule which will best fit with the overall debt structure of the fund and its related rate structure will be considered. Consideration

shall be given to coordinating the length of the issue with the lives of assets, whenever practicable, while considering repair and replacement costs of those assets to be incurred in future years as an offset to the useful lives, and the related length of time in the payout structure.

7. Assess financial alternatives to include new and innovative financing approaches; including whenever feasible, categorical grants, revolving loans or other state/federal aid.

8. Minimize interest expense and debt issuance cost.

3.0 Debt Issuance in General:

3.1 Authority and Purposes of the Issuance of Debt

The laws of the State of Illinois authorize the issuance of debt by the Village. The Illinois Municipal Code confers upon municipalities the power and authority to contract debt, borrow money, and issue bonds for public improvement projects as defined therein. Under these provisions, the Village may contract debt to pay for the cost of acquiring, constructing, reconstructing, improving, extending, enlarging, and equipping such projects or to refund bonds.

The Bond Issue Notification Act (30 ILCS 352) requires non-home rule cities and villages proposing to sell non-referendum general obligation bonds to hold a public hearing concerning its intent to issue such bonds.

3.2 Short-Term Debt (three years or less)

The Village may issue short-term debt which may include, but not be limited to, bond anticipation notes or variable rate demand notes. Those instruments which allow the Village to meet cash flow requirements or provide increased flexibility in financing programs.

3.3 Long-Term Debt (more than three years)

The Village may issue long-term debt which may include, but not be limited to, general obligation bonds, certificates of participation, debt certificates, installment notes, alternate bonds, revenue bonds, or special assessment bonds.

The cost of issuance of private activity bonds is usually higher than for governmental purpose bonds. Consequently, private activity bonds will be issued only when they will economically benefit the Village.

The cost of taxable debt is higher than for tax-exempt debt. However, the issuance of taxable debt is mandated in some circumstances and may allow valuable flexibility in subsequent contracts with users or managers of the improvement constructed with the bond proceeds. In addition, there may be circumstances in which the issuance of taxable debt may be more cost effective than the issuance of tax-exempt debt. Therefore, the Village will usually issue obligations tax exempt, but may occasionally issue taxable obligations.

3.3.a Capital Leasing

The Village may also enter into long-term leases for public facilities, property, and equipment with a useful life greater than one year.

Whenever a lease is arranged with a private sector entity, a tax-exempt rate should be sought. Whenever a lease is arranged with a government or other tax-exempt entity, the Village should strive to obtain an explicitly defined taxable rate so that the lease shall not be counted in the Village's total annual borrowing subject to arbitrage rebate.

The lease agreement should permit the Village to refinance the lease at no more than reasonable cost should the Village decide to do so. A lease which can be called at-will is preferable to one which can merely be accelerated.

3.4 Capital Improvement Program

The Capital Improvement Program (CIP), approved by the Village Board as part of the annual budget, should determine the Village's capital needs. The program should be a five-year plan for the acquisition, development and/or improvement of the Village's infrastructure. Projects included in the CIP should be prioritized; and the means for financing each should be identified. If the current resources are insufficient to meet the needs identified in the CIP, the Village Board may consider incurring debt to fund the shortfall. The Village Board may also consider incurring debt to fund multiple years of the Capital Improvement Program.

3.5 Structure of Debt Issues

The duration of a debt issue should not remain outstanding beyond the asset's useful life. Each new bond issue should be structured to be callable in 10 years. The Village should design the financing schedule and repayment of debt so as to take best advantage of market conditions and, as practical, to recapture or maximize its credit capacity for future use, and moderate the impact to the taxpayer.

All bonds shall mature within the period or average period of usefulness of the assets financed; and the bonds shall mature in installments, the first of which is not payable more than five years from the dated date of the bonds.

3.6 Credit Enhancements

Credit enhancements are mechanisms which guarantee principal and interest payments. Typically, they include bond insurance and/or a line or letter of credit. Usually this will bring a lower interest rate and a higher rating from the rating agencies, thus lowering costs.

The Village may enter into agreements with commercial banks or other financial entities for the purpose of acquiring credit enhancements when their use is judged to be cost effective or otherwise advantageous. Any such agreements shall be approved by the Village Board.

3.7 Inclusion of Local Institutions

Whenever practical and in the best interest of promoting the Village of Cherry Valley, local financial institutions are to be offered the opportunity to bid on debt instruments.

4.0 Legal Constraints and Other Limitations on the Issuance of Debt

4.1 State Law

30 ILCS 305/0.01, et. seq.: the short title is "The Bond Authorization Act."

4.2 Authority for Debt

The Village may, by bond ordinance, incur indebtedness or borrow money, and authorize the issue of negotiable obligations, including refunding bonds, for any capital improvement of property, land acquisition, or any other lawful purpose with approval by the Village Board.

4.3 Debt Limitation

The Village of Cherry Valley is a non-home rule community. The Illinois Municipal Code (65 ILCS 5/8-5-1) subjects cities and villages to a legal limitation of general obligation bonded debt to no greater than 8.625% on the value of the taxable property therein.

4.4 Methods of Sale

When feasible and economical, obligations should be issued by competitive rather than negotiated sale. A sale may be negotiated when the issue is predominantly a refunding issue or in other non-routine situations which require more flexibility than a competitive offer allows. Whenever the option exists to offer an issue either for competition or for negotiation, options should be analyzed to aid in the decision-making process. When a sale is not competitively bid, the Village will publicly present the reasons and select the underwriter or direct purchaser. If a Financial Advisor is hired to assist the Village in bond issuance, the Financial Advisor shall not underwrite any debt issues on which it is advising.

The criteria used to select an underwriter in a competitive sale should be the true interest cost. In a negotiated sale, the underwriter may be selected with or without a request for proposals (RFP). The criteria used to select an underwriter in a negotiated sale should include the following:

- Overall experience
- Marketing philosophy
- Capability
- Previous experience as managing a co-managing partner
- Financial statements
- Public Finance team and resources
- Underwriter's discount

When cost/beneficial, the Village may privately place its debt. Since no underwriter participates in a private placement, it may result in lower costs of issuance. Private placement is sometimes an option for small bond issues.

4.5 Credit Implications

When issuing new debt, the Village should strive not to exceed credit industry benchmarks where applicable. Therefore, the following factors should be considered in developing debt issuance plans:

4.5.a Ratio of Gross Bonded Debt to Estimated Full Value

The formula for this computation is Net General Obligation Bonded Debt (not self-supported by an enterprise fund), which is the total outstanding debt divided by the current Estimated Full Value as determined by the most recent EAV times three.

4.5.b Net Bonded Debt Per Capita

The formula for this computation is Net Bonded General Obligation Debt (not self-supported by an enterprise fund) divided by the current population as determined by the most recent U.S. Census.

4.5.c Ratio of Annual Debt Service to General Fund Expenditures

The formula for this computation is annual general obligation debt service expenditures divided by General Government expenditures (i.e. General, Special, and Debt Service Funds, excluding certain interfund transfers).

4.5.d Median Income

The computation is obtained from the most recent census data.

4.5.e Rapidity of Debt Service Repayment

The Village will typically use level or declining debt repayment schedules, avoiding back-loaded or balloon repayment schedules. The Village shall not use variable-rate debt to avoid fluctuations in debt service requirements as well as fluctuations in tax levy rates. Only in those circumstances where it is to the Village's advantage will debt service be scheduled on a non-even repayment basis, back-loaded or balloon repayment schedules.

4.5.f Current Fund Balance General Fund Cash Reserve

The Village should maintain a General Fund unassigned balance equal to a minimum of thirty-five percent (35%) of total annual appropriations, exclusive of interfund transfers. Such calculation, including a projection to April 30th (of the current fiscal year), should be made on an annual basis by the Village Treasurer (or designee) during the budget process.

5.0 Debt Administration

5.1 Financial Disclosures

The Village shall prepare appropriate disclosures as required by the Securities and Exchange Commission, the federal government, the State of Illinois, rating agencies, underwriters, investors, agencies, taxpayers, and other appropriate entities and persons to ensure compliance with applicable laws and regulations.

5.2 Review of Financing Proposals

All capital financing proposals that involve a pledge of the Village's credit through the sale of securities, execution of loans or lease agreements and/or otherwise directly involve the lending or pledging of the Village's credit shall be referred to the Village Treasurer who shall determine the financial feasibility, and the impact on existing debt of such proposal, and shall make recommendations accordingly to the Village Administrator.

5.3 Establishing Financing Priorities

The Village Treasurer shall administer and coordinate the Village's debt issuance program and activities, including timing of issuance, method of sale, structuring the issue, and marketing strategies. The Village Treasurer along with the Village's financial advisor shall meet, as appropriate, with the Village Administrator and the Village Board to discuss the status of the current year's program and to make specific recommendations.

5.4 Ratings Agency

The Village should endeavor to maintain and/or to improve its credit rating, and staff shall specifically discuss with the Village Board any proposal which might cause that rating to be lowered.

Before a general obligation bond is issued, the Village shall update its rating from at least one national rating agency. The Village Administrator, Village Treasurer, and the Village's financial advisor shall meet with a rating agency to disclose the Village's capital plans, debt issuance program, and other appropriate financial information as required by the rating agency.

5.5 Refunding Policy

The Village should consider refunding outstanding debt when legally permissible and financially advantageous. The Village shall review refunding opportunities in accordance with best practices set forth by the Government Finance Officers Association.

5.6 Investment of Borrowed Proceeds

The Village acknowledges its ongoing fiduciary responsibilities to actively manage the proceeds of debt issued for public purposes in a manner that is consistent with Illinois statutes that govern the investment of public funds, and consistent with the permitted securities covenants of related bond documents executed by the Village. The management of public funds should enable the Village to respond to changes in markets or changes in payment or construction schedules so as to (i) optimize returns, (ii) ensure liquidity, and (iii) minimize risk.

The Village shall invest bond proceeds in accordance with the Village's investment policy.

5.7 Federal Arbitrage Rebate Requirement

The Village shall maintain or cause to be maintained an appropriate system of accounting to calculate bond investment arbitrage earnings in accordance with the Tax Reform Act of 1986, as amended or supplemented, and applicable United States Treasury regulations related thereto. Such amounts shall be computed annually and transferred from the Bond Construction Fund (i.e., interest earnings revenue account) to the Debt Service Fund escrow account, or other appropriate accounts, for eventual payment to the United States Treasury.

In order to avoid arbitrage earnings on bond proceeds, Village staff shall recommend issuance of debt based upon the cash flow needs of the capital improvement project in which contracts for construction or other goods and services can reasonably be expected to be awarded during the calendar year. Consideration shall be given to the feasibility of obtaining rights-of-way, engineering services, or other matters which may affect the completion of the project in a timely manner, before a recommendation to issue debt is made.

Glossary of Terms:

Ad Valorem Tax - A direct tax based "according to value" of property.

Advanced Refunding Bonds - Bonds issued to refund an outstanding bond issue prior to the date on which the outstanding bonds become due or callable. Proceeds of the advanced refunding bonds are deposited in escrow with a fiduciary, invested in United States Treasury Bonds or other authorized securities, and used to redeem the underlying bonds at maturity or call date.

Amortization - the process of paying the principal amount of an issue of bonds by periodic payments either directly to bondholders or to a sinking fund for the benefit of bondholders.

Arbitrage - Usually refers to the difference between the interest paid on the tax-exempt securities and the interest earned by investing the proceeds in higher yielding taxable securities. Internal Revenue Service regulations govern arbitrage (reference I.R.S. Reg. 1.103-13 through 1.103-15).

Arbitrage Bonds - Bonds which are deemed by the I.R.S. to violate federal arbitrage regulations. The interest on such bonds becomes taxable and the bondholders must include this interest as part of gross income for federal income tax purposes (I.R.S. Reg. 1.103-13 through 1.103-15).

Assessed Value - An annual determination of the just or fair market value of property for purposes of ad valorem taxation.

Basis Point - 1/100 of one percent.

Bond - Written evidence of the issuer's obligation to repay a specified principal amount on a date certain, together with interest at a stated rate, or according to a formula for determining that rate.

Bond Anticipation Notes (BANS) - Short-term interest bearing notes issued by a government in anticipation of bonds to be issued at a later date. The notes are retired from proceeds of the bond issue to which they are related.

Bond Counsel - An attorney retained by the Village to render a legal opinion whether the Village is authorized to issue the proposed bonds, has met all legal requirements necessary for issuance, and whether interest on the bonds is, or is not, exempt from federal and state income taxation.

Bonded Debt - The portion of an issuers total indebtedness represented by outstanding bonds.

> Direct Debt or Gross Bonded Debt - The sum of the total bonded debt and any unfunded debt of the issuer.
>
> Net Direct Debt or Net Bonded Debt - Direct debt less sinking fund accumulations and all self-supporting debt.
>
> Total Overall Debt - Net direct debt plus the issuer's applicable share of the direct debt of all overlapping jurisdictions.
>
> Net Overall Debt - Net direct debt plus the issuer's applicable share of the net direct debt of all overlapping jurisdictions.
>
> Overlapping Debt - The issuer's proportionate share of the debt of other local governmental units which either overlap or underlie it.

Callable Bond - A bond which permits or requires the issuer to redeem the obligation before the stated maturity date at a specified price, the call price, usually at or above par value.

Capital Appreciation Bonds (CAB) - A long-term security on which the investment return is reinvested at a stated compound rate until maturity. The investor receives a single payment at maturity representing both the principal and investment return.

Certificates of Participation - Documents, in fully registered form, that act like bonds. However, security for the certificates is the government's intent to make annual appropriations during the term of a lease agreement. No pledge of full faith and credit of the government is made. Consequently, the obligation of the government to make basic rental payments does not constitute an indebtedness of the government.

Commercial Paper - Very short-term, unsecured promissory notes issued in either registered or bearer form, and usually backed by a line of credit with a bank.

Coupon Rate - The annual rate of interest payable on a coupon bond (a bearer bond or bond registered as to principal only, carrying coupons evidencing future interest payments), expressed as a percentage of the principal amount.

Debt Limit - The maximum amount of debt which an issuer is permitted to incur under constitutional, statutory or charter provision.

Debt Service - The amount of money necessary to pay interest on an outstanding debt, the serial maturities of principal for serial bonds, and the required contributions to an amortization or sinking fund for term bonds.

Demand Notes (Variable Rate) - A short-term security which is subject to a frequently available put option feature under which the holder may put the security back to the issuer after giving specified notice. Many of these securities are floating or variable rate, with the put option exercisable on dates on which the floating rate changes.

Double Barreled Bonds (Combination Bonds) - A bond which is payable from the revenues of a governmental enterprise and are also backed by the full faith and credit of the governmental unit.

Enterprise Funds - Funds that are financed and operated in a manner similar to private business in that goods and services provided are financed primarily through user charges.

General Obligation Bond - A bond for whose payment the full faith and credit of the issuer has been pledged. More commonly, but not necessarily, general obligation bonds are payable from ad valorem property taxes and other general revenues.

Lease Purchase Agreement (Capital Lease) - A contractual agreement whereby the government borrows funds from a financial institution or a vendor to pay for capital acquisition. The title to the asset(s) normally belongs to the government with the lessor acquiring security interest or appropriate lien therein.

Letter of Credit - A commitment, usually made by a commercial bank, to honor demands for payment of a debt upon compliance with conditions and/or the occurrence of certain events specified under the terms of the commitment.

Level Debt Service - An arrangement of serial maturities in which the amount of principal maturing increases at approximately the same rate as the amount of interest declines.

Long-Term Debt - Long-term debt is defined as any debt incurred whose final maturity is more than three years.

Maturity - The date upon which the principal of a municipal bond becomes due and payable to bondholders.

Mini-bonds - A small denomination bond directly marketed to the public.

Net Interest Cost (NIC) - The traditional method of calculating bids for new issues of municipal securities. The total dollar amount of interest over the life of the bonds is adjusted by the amount of premium or discount bid, and then reduced to an average annual rate. The other method is known as the true interest cost (see "true interest cost").

Offering Circular - Usually a preliminary and final document prepared to describe or disclose to investors and dealers' information about an issue of securities expected to be offered in the primary market. As a part of the offering circular, an official statement should be prepared by the Village describing the debt and other pertinent financial and demographic data used to market the bonds to potential buyers.

Other Contractual Debt - Purchase contracts and other contractual debt other than bonds and notes. Other contractual debt does not affect annual debt limitation and is not a part of indebtedness within the meaning of any constitution or statutory debt limitation or restriction.

Par Value or Face Amount - In the case of bonds, the amount of principal which must be paid at maturity.

Parity Bonds - Two or more issues of bonds which have the same priority of claim or lien against pledged revenues or the issuer's full faith and credit pledge.

Principal - The face amount or par value of a bond or issue of bonds payable on stated dates of maturity.

Private Activity Bonds - One of two categories of bonds established under the Tax Reform Act of 1986, both of whom are subject to certain tests and State volume caps to preserve tax exemption.

Ratings - Evaluations of the credit quality of notes and bonds, usually made by independent rating services, which generally measure the probability of the timely repayment of principal and interest on municipal bonds.

Refunding Bonds - Bonds issued to retire bonds already outstanding.

Registered Bond - A bond listed with the registrar as to ownership, which cannot be sold or exchanged without a change of registration.

Reserve Fund - A fund which may be used to pay debt service if the sources of the pledged revenues do not generate sufficient funds to satisfy the debt service requirements.

Self-Supporting or Self Liquidating Debt - Debt that is to be repaid from proceeds derived exclusively from the enterprise activity for which the debt was issued.

Short-Term Debt - Short-term debt is defined as any debt incurred whose final maturity is three years or less.

Spread - The income earned by the underwriting syndicate as a result of differences in the price paid to the issuer for a new issue of municipal bonds, and the prices at which the bonds are sold to the investing public, usually expressed in points or fractions thereof.

Tax-Exempt Bonds - For municipal bonds issued by the Village tax-exempt means interest on the bonds are not included in gross income for federal income tax purposes; the bonds are not items of tax preference for purposes of the federal, alternative minimum income tax imposed on individuals and corporations; and the bonds are exempt from taxation by the State of Illinois.

Tax Increment Bonds - Bonds secured by the incremental property tax revenues generated from a redevelopment project area.

Term Bonds - Bonds coming due in a single maturity.

True Interest Cost (TIC) - Also known as Canadian Interest Cost. A rate which, when used to discount each amount of debt service payable in a bond issue, will produce a present value precisely equal to the amount of money received by the issuer in exchange for the bonds. The TIC method considers the time value of money while the net interest cost (NIC) method does not.

Yield to Maturity - The rate of return to the investor earned from payments of principal and interest, with interest compounded semiannually and assuming that interest paid is reinvested at the same rate.

Zero Coupon Bond - A bond which pays no interest, but is issued at a deep discount from par, appreciating to its full value at maturity.