

Summary of City Debt Strategy Meeting

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Overview

- Meeting focused on aligning current and projected debt position.
- Discussion on establishing core debt strategy principles and KPIs.
- Emphasis on fiscal discipline and pay-as-you-go capital targets.
- Consideration of debt layering and impact on general fund and enterprise funds.
- Need for clear policies on bond anticipation notes (BANs) and debt conversion.

Meeting Opening and Attendance

- Finance Ad Hoc Committee met on March 3rd at City Hall with key city officials and members present.
- Meeting objectives: align on current/projected debt, agree on debt strategy principles, narrow KPIs, recommend actionable items to city council.
- Total long-term debt is \$46.4 million; debt to fair market value is 3.04%, rising to 3.79% post-bond anticipation notes (BANs) conversion in April 2026.
- Only 52% of assessed value is taxable; enterprise leverage is elevated but amortization improves around 2030.
- Discussion focuses on acceptable leverage ratios, potential caps on debt to fair market value, and maintaining general fund debt service below 10%.

Meeting Objectives and Data Overview

- Consider adopting a pay-go capital target to limit debt and require cash reserves for projects.
- Establish or review a BAN (Bond Anticipation Note) conversion policy with clear financial metrics.
- Monitor key debt metrics regularly: debt to fair market value, general fund debt service to revenue, debt limit utilization, BAN exposure, taxable assessed value share.
- Water and sewer funds are separate but impact overall tax levy and cost of living; their debt should be considered in total financial planning.
- Capital improvement plans are dynamic, factoring in emergencies, project delays, and funding sources; debt service projections vary across funds with some decreasing and others increasing.

Debt Position and Strategy Discussion

- Permanent financing adjusts project costs based on completion, often lower than initial bond amounts.
- Debt-to-market value ratios and debt service as a percentage of revenue are key metrics for financial health.
- Water and sewer enterprise funds have higher debt-to-revenue ratios due to infrastructure funding needs.
- State grants and zero-interest loans support water/sewer projects, with reimbursement delays possible.

- Discussion on debt strategy includes targeting levy draw percentages, pay-as-you-go capital funding, and allocation of debt costs among users.

Capital Planning and Project Management

- Discussion on use of CBDG funds and fire truck purchase as a one-time deal to avoid losing funds.
- Proposal of a pay-as-you-go policy requiring 20% cash down for projects under \$1 million to enforce fiscal discipline.
- Consideration of exceptions to the pay-as-you-go rule requiring council approval for deviations.
- Emphasis on need for a governance framework to manage debt and spending decisions transparently.
- Suggestion for staff to provide historical data on bonding and cash payments to inform committee decisions.

Debt Policy and Pay-As-You-Go Discussion

- Projects must be completed before bond conversion.
- Key Performance Indicators (KPIs) proposed to monitor project progress, e.g., assessment levels with target goals.
- Capital affordability gate suggested before authorizing debt, requiring council approval for bonding decisions.
- Enterprise Debt Service Coverage Ratio (DSCR) and rate impact analysis recommended prior to water/sewer borrowing.
- OPEB and lifetime cost considerations advised for new hires and retiree benefits in budgeting and negotiations.