Debt Management Policy & Procedure

Littleton Colorado

Recommendation

Littleton

Council Direction from April 28, 2026 study session:

- Update policy to change the maximum debt service allowed for governmental funds from 15% to 10% of governmental revenues

- Update policy to reflect annual debt coverage ratio for enterprise funds from 1.1 to 1.2 times the amount of debt obligations.

- Return to Council with final policy for adoption consideration.

Why Long-Term Debt?

Littleton

Intergenerational Equity

- Residents who benefit from a facility over its useful life should share in paying for it, not just current taxpayers.
- A 30-year asset paid for in a single year is neither fair nor financially sound. Long-term debt aligns cost with benefit.

Inflation Erodes Pay-Go

- Deferring capital does not eliminate costs. It increases them.
- Littleton's facilities average 75 years of age.
- Construction inflation of 8%+ annually means a project priced at $30M today costs about $44M in five years.

Accelerates Projects

- Debt financing allows the City to deliver multiple priority projects simultaneously rather than sequentially.
- The 2026 COPs fund Downtown Main Street Projects.
- Proposed 2027 COPs will fund other Council-directed projects, impossible on a pay-go basis given project scale and timeline.

20 Years of Fiscal Discipline

- Littleton has carried no debt for roughly two decades.
- That discipline created significant borrowing capacity and a financial profile well above national peers.
- This program is a measured, first use of that capacity that will help the City invest in its assets and service delivery quality.

Debt Policy & Guardrails

Current policy adopted November 2018 and amended April 2023. The proposed new Debt Policy provides detailed operational guidance on issuance practices, authorized structures, credit targets, and post-issuance compliance obligations.

POLICY GOALS

- Achieve the lowest cost of capital within acceptable risk parameters
- Demonstrate a commitment to long-term capital planning
- Maintain or improve credit ratings; assure reasonable-cost market access
- Preserve financial and management flexibility
- Manage interest rate risk within acceptable parameters
- Provide justification for debt structure consistent with Policy goals

Recommended Debt Policy Guardrails & Best Practices

Littleton

KEY PARAMETERS

GO Bond Limit	3.7% of assessed value ($48.6M per charter) Voter approval required.
Revenue Bond Limit	5% of AV for sewer/water (~$65.6M) before voter approval required (City Charter).
COP Debt Service Limit	≤ 1/3 of 3A Capital Sales Tax revenues annually (~$4.16M estimated for 2026).
Debt Service/Revenue Bond Ceiling	Annual debt service ≤ 10% of GF + Capital Sales Tax revenues combined – best practices/peer benchmarks
Finance Director	Annual debt capacity analysis required before every new issuance

Appropriate Debt Level — Typical Measures

- Annual debt service on tax-supported obligations should not exceed 10% of General Fund & Capital Improvement Sales Tax Fund revenues
- Debt service on obligations payable from dedicated tax revenues approved by voters shall be excluded from the 10% cap (consistent with GFOA best practices and peer benchmarks)
- The percentage of tax-supported principal retired within 10 years relative to peer Front Range municipalities
- Tax-supported debt per capita should be maintained relative to peer Front Range municipalities
- Enterprise support financial obligations target an annual debt service coverage ratio of 1.2
- Finance Director shall prepare a debt capacity analysis annually and prior to any new issuance.

Use of Debt Proceeds

Littleton

General Government Debt

Debt for general government projects:

- Certificates of Participation (COPs)
- Revenue Bonds (e.g., sales tax-backed)
- General Obligation (GO) Bonds

2026/2027 COPs — Council-Directed Projects

- Downtown / Main Street project
- Service Center improvements
- Town Hall Arts Center mechanical

Future Projects —

- *Facilities Master Plan*
- *Transportation Master Plan*
- *Blueprint Boulevard Plan*
- *Ongoing Capital Improvement Plan*

Utility / Enterprise Debt

Debt for enterprise fund projects:

- Revenue Bonds (utility/ratepayer backed)
- State Revolving Fund Loans (SRF)

Key Distinction

- Utility debt is self-supporting, repaid from ratepayer revenues, not the General Fund or 3A sales tax.
- It is tracked and evaluated separately from general government debt capacity.

- *Rate study in process — utility debt program to be presented to Council upon completion for sewer and stormwater rates.*

Recommendation

Staff recommends approval of this policy and procedure to provide guidance as the City moves forward with our capital needs.