Agenda Date: 10/11/2016
Agenda Item: 3.9

OAKLEY
CALIFORNIA

STAFF REPORT

Date: October 11, 2016

To: Bryan H. Montgomery, City Manager

From: Deborah Sultan, Finance Director

Approved and Forwarded to the City Council:

Bryan Montgomery, City Manager

SUBJECT: Approve Resolution Adopting the City of Oakley's Debt Management Policy

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Background and Analysis

It is prudent financial management for the City to adopt a debt management policy that sets parameters for issuing debt, managing the City's debt portfolio and provides guidance to decision makers. Adherence to a debt policy also helps ensure that the City maintains a sound debt position and that its credit rating is protected.

A debt policy recognizes the City's long-term commitment of full and timely repayment of all debt as an intrinsic requirement for entry into the capital markets. The recommended debt management policy has been written to include the elements recommended by the Governmental Finance Officers Association and best management practices expected by the credit markets. This policy will assist the City in pursuing and maintaining quality credit ratings in addition to providing guidance to decision makers.

Fiscal Impact

There is no fiscal impact

Recommendation

Staff recommends the City Council approve the resolution adopting the City of Oakley's Debt Management Policy.

Attachment 1

RESOLUTION NO. __-

A RESOLUTION OF THE OAKLEY CITY COUNCIL APPROVING THE DEBT MANAGEMENT POLICY

WHEREAS, the City Council approves the City's Statement of Financial Policies each year as part of the City's Operating and Capital Improvement Budget; and

WHEREAS, the City Council recognizes that cost-effective access to the capital markets depends an prudent management of the City's debt program; and

WHERAS, the City wishes to set parameters for issuing debt, managing the debt portfolio and providing guidance to decision makers; and

WHEREAS, the Government Finance Officers Association has determined as a best practice for government agencies to adopt a debt management policy;

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Oakley hereby approves the Debt Management Policy attached hereto as Exhibit A.

PASSED AND ADOPTED by the City Council of the City of Oakley at a meeting held on the 11th of October, 2016 by the following vote:

AYES:
NOES:
ABSENT:
ABSTENTIONS:

APPROVED:

____
Kevin Romick, Mayor

ATTEST:

____
Libby Vreonis, City Clerk

____
Date

Exhibit A

CITY OF OAKLEY
DEBT MANAGEMENT POLICY
OCTOBER 2016

I. INTRODUCTION

The City of Oakley has established this Debt Management Policy to provide clear and comprehensive guidelines for the issuance and financial management of the City of Oakley's debt portfolio. This policy confirms the commitment of the City Council, management and staff and other decision makers to adhere to sound financial management practices, including full and timely repayment of borrowings, achieving the lowest possible cost of capital within prudent risk parameters. The priorities of this policy are:

Achieve the lowest cost of capital;
Maintain a prudent level of financial risk;
Preserve future financial flexibility
Maintain full and complete financial disclosure and reporting;
Obtain highest practical credit ratings and good investor relations and;
Ensure compliance with state and federal laws and regulations.

II. SCOPE

The guidelines established by this policy will govern the issuance and management of all debt funded for long term capital financing needs and not for general operating functions. The Finance Department recognizes that changes in the capital markets and other unforeseen circumstances may require exception to this Debt Management Police, approval from the City Council will be necessary for implementation.

III. DELEGATION OF AUTHORITY

Pursuant to the provisions of Sections 37209 and 40805.5 of the Government Code of the State of California, the Finance Director (Director of Finance) shall be the head of the finance department and shall be responsible for all of the financial affairs of the City. This City Debt Management Policy grants the Finance Director the authority to select the financing team, coordinate the administration and issuance of debt, communicate with the rating agencies, as well as to fulfill all the pre-issuance and post-issuance disclosure information.

The Finance Director or designee will use the Request for Proposal (RFP) process to select various Financing Team Members. Below is a brief description of the main Financing Team, along with their functions.

1. *<u>Financial Advisor</u>*

- Assists with capital planning and long term planning
- Coordinates the financing and debt issuance process
- Helps evaluate underwriter proposals and provides financial analysis and recommendations
- Assists with the securing of other professional services and other members of the financing team
- Monitors and evaluates market conditions for opportunities to issue debt at low interest rates
- Works with the City and Underwriter to develop investor outreach and market approach
- Manages competitive bid process
- Ensures negotiated prices are "fair" and reasonable in the marketplace.

2. *Bond Counsel*
- Prepare an approving legal opinion
- Provide expert and objective legal opinion and advice
- Prepare and review documents necessary to authorize, issue sale and delivery of the bonds as well as coordination of the authorization and execution of closing documents
- Review legal issues relating to the structure of the bond issue
- Prepare election proceedings or pursue validation proceedings if necessary
- Review or prepare those sections of the official statement that relate to the Bonds, financing documents, bond counsel opinion and tax exemption
- Assist the City in presenting information to bond rating organizations and credit enhancements providers relating to legal issues affecting the issuance of the Bonds
- Review or prepare the Notice of Sale of Bond Purchase Contract for the Bonds and review or draft the continuing disclosure undertaking of the City
- Post-issuance advice for bond covenant compliance

3. *Underwriter*
- Provide the City with market knowledge
- Assist with credit analysis and preparation
- Premarketing of the Bonds
- Pricing and Sale of Bonds
- Trading of the Bonds

4. *Trustee/Fiscal Agent/Paying Agent*
- Establishes and holds the funds and account relating to the bond issue
- Maintains the list of names and addresses of all registered owners of the bonds and recordings of transfers and exchanges of the bonds
- Acts as the authenticating agent
- Acts as the paying agent
- Protects the interests of the bondholders by monitoring compliance with covenants and acts on behalf of the bondholders in the event of default.
- As the escrow agent holds the investments acquired with the proceeds of an advance refunding and uses those funds for payments on those investments to pay debt service of the refunding bonds
- As a dissemination acts on behalf of the issuer or other obligated person to disseminate annual reports and event notices to repositories under SEC Rule 15c12-12

IV. TYPES OF DEBT

There are a number of market factors that will affect the success of a bond offering and each should be carefully considered before selecting a method of sale. These factors include, but are not limited to, 1) market perception of the City's credit quality, 2) interest rate volatility, 3) size of the proposed issue, 4) complexity of the proposed issue and 5) competition with other issuers for investor interest (bond supply). The following are types of debt the City could issue:

1. New Money Bonds

New Money Bonds are bonds issued to finance the cost of capital improvement project or other large or extraordinary costs as approved by the City Council.

2. Refunding Bonds

Refunding bonds are bonds issued to refinance (refund) previously issued outstanding debt. The City may issue refunding bonds to refinance the principal and of and interest on outstanding bonds or other debt to achieve debt service savings, restructure schedule debt service or convert from variable to fixed interest rate, change or modify the source(s) of payment and security for the refunded debt, or modify covenants otherwise binding upon the City. Refunding may be issued on either on a current or advance basis.

3. Revenue Bonds
Revenue bonds are generally issued by enterprise funds that are financially self-sustaining without the use of taxes and therefore rely on the revenues collected by the enterprise fund to repay the debt.

4. Assessment Bonds
The Improvement Bond Act of 1915 (Streets and Highways Code Section 89500 et seq.) allows the City to issue bonds to finance the "specific benefit" improvements on the real property within its jurisdiction provided by the City. Installments are collected by posting to the secure property tax roll of the county.

5. General Obligation (GO) Bonds
In California, GO Bonds require a supermajority voter approval. Most GO bonds are backed by the issuer's ability to level ad valorem tax in amounts sufficient to meet debt service.

6. Certificate of Participation
Also known as "COP" this security represents a share of an issuer's lease payment. When a City finances a public facility through a lease-purchase transaction, the interest in that City's lease payment often is assigned to a third party that issues certificates of participation. The certificates represent a share of the lease payment to be received by the investor.

V. DEBT TERM

The City Council recognized that any new debt obligation will have an impact on the long-term affordability of all outstanding debt and any future planned debt, as well as budgetary impacts associated with the maintenance and operating costs of debt-financed facilities.

Term of Debt – Debt will be structured for the shortest period possible, consistent with a fair allocation of costs to current and future beneficiaries or users. Debt shall not be issued for a term that exceeds the useful life of the debt-financed asset.

Debt Repayment – Typically the City desires level debt service payments over the term of the debt. However, the cost of capital, financial risk, current economic conditions, future financial flexibility, credit rating and available cash flow will be evaluated to determine the most appropriate method of debt amortization for each debt issue. Notwithstanding the above, back loading of debt service will be evaluated as the circumstances dictate. Back loading occurs when debt service payments are lower in the initial years of a debt term and higher toward the later years of a debt term.

VI. DEBT ISSUANCE

The City has the capacity to issue long and short-term debt and to refund any outstanding debt. The following section details the purposes for debt issuance, the method of sale for such debt and the practices for obtaining professional assistance in the debt issuance process.

Long-term debt – Long-term debt may be used to finance the acquisition or improvement of land, infrastructure, facilities or equipment for which it is appropriate to spread the costs of such over more than one budget year. Long-term debt may be used to fund capitalized interest, cost of issuance, required reserves and any other financing related costs that may be legally capitalized. Long-term debt should not be used to fund City operating costs.

Short-term debt – Short-term debt will be considered as an interim source of funding in anticipation of long-term debt. Short-term may be issued for any purpose for which long-term debt may be issued, including capitalized interest and financing-related costs. Short-term debt is also appropriate to address legitimate short-term cash flow requirements during a given fiscal year to fund the operating costs of the City to provide necessary public services. The City will not engage in short-term borrowing solely for the purpose of generating investment income.

Refunding – Refunding opportunities will be identified by periodic review of outstanding debt obligations. Refunding will be considered when there is a net economic benefit from the refunding. Non-economic refunding may be undertaken to achieve City objectives relating to changes in covenants, call provisions, operational flexibility, tax status, issuer or other non-economic factors related to the debt.

Method of sale – Debt is typically issued under either a competitive or a negotiated sale. The City shall have the flexibility to determine which method of sale is appropriate for each debt issuance. Determination of the appropriate method of sale will rest collectively with the City Manager, Finance Director and City Attorney.

Private Placement – The City may determine that private placement of debt is most appropriate. Use of private placement will be considered collectively by the City Manager, Finance Director and City Attorney.

Pooled Financing – The City may also consider the use of pooled financing as a method of accessing the capital markets. Use of pooled financing will be evaluated collectively by the City Manager, Finance Director and City Attorney on a case-by-case basis.

VII. DEBT CAPACITY

Article XVI, Section 18 of the California Constitution (the "debt limit") prohibits cities from entering into indebtedness or liability that in any year exceeds the income and revenue provided for such year unless the city first obtains two-thirds voter approval for the obligation. Determining what the City's debt capacity is any point in time is difficult. It depends on a number of factors including market conditions, amount of undesignated fund balance in the General Fund, fluctuation cash balances, financial policies, management and staff experience, new or existing revenues to support additional debt and availability of financial consultants to assist in the financial analysis. In the development of this Debt Policy, the goal is to serve as a framework within which the City can evaluate each potential debt issuance. This Debt Police is not to be so restrictive that it interferes with the City's legitimate efforts to prudently provide public services and facilities.

VIII. PERFORMANCE STANDARDS

The City of Oakley strives to maintain "investment grade" standings in the municipal market. Below is an Investment Grade Table of the three (3) major rating agencies:

Moody's Investors Service Inc.	Standard & Poor's Corporation	Fitch Investors Service Inc.	Definition
Aaa	AAA	AAA	Highest rating assigned Very Strong security
Aa	AA	AA	Very strong security, Only slightly below the best rating
A	A	A	Average security but more subject to adverse financial and economic developments
Baa	BBB	BBB	Adequate capacity to secure debt. Adverse developments may affect ability to meet debt service requirements.

Note: Mood's use the designation "1" to indicate a greater strength with the "Baa" "A" and "Aa" categories. Standard and Poor's and Fitch use "=" and "-" to indicate relative strength or weakness in the "BBB", "A", and "AA" categories.

IX. ON-GOING DEBT ADMINISTRATION

The Finance Director will regularly review the City's outstanding obligations, particularly in declining interest rate environment. When rates begin to approach levels at which refunding is cost effective, the City shall select a financing team to begin preparations for a refunding issue.

<u>Continuing Disclosure</u>

The Finance staff will ensure that the City's annual financial statements and associated reports are posted on the City's web site. The City will also contract with Consultant(s) to comply with the Securities and Exchange Commission Rule 15c2 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders on the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board (MSRB)

<u>Arbitrage Rebate Compliance and Reporting</u>

The use and investment of bond proceeds must be monitored to ensure compliance with arbitrage restrictions. Existing regulation require that issuers calculate rebate liabilities related to bond issues, with rebates paid to the Federal Government every five years and otherwise required by applicable provisions of the Internal Revenue Code and regulations. The Finance Director shall contract with a specialist to ensure that proceeds and investments are tracked in a manner that facilitates accurate, complete calculations and if necessary timely rebate payments.

X. DEBT MANAGEMENT POLICY REVIEW

The Finance Director shall review this Debt Management Policy at a minimum of every five (5) years and recommend any changes to the City Manager and City Council.