



CONSENT CALENDAR

Agenda Item # 5

AGENDA REPORT SUMMARY

Meeting Date: June 8, 2021

Subject: Resolution No. 2021-26: Debt Management Policy Revisions

Prepared by: Helen Lei, Management Analyst Fellow

Reviewed by: Jon Maginot, Deputy City Manager

Approved by: Brad Kilger, Interim City Manager

Attachment(s):

1. Resolution No. 2021-26
2. Debt Management Policy Revisions (November 2020)

Initiated by:

City Council

Previous Council Consideration:

November 24, 2020

Fiscal Impact:

There is no immediate fiscal impact. The Debt Management Policy governs how and when the City uses debt financing. Changes to the Debt Management Policy will affect future debt financing transactions.

Environmental Review:

Not applicable

Policy Question(s) for Council Consideration:

Not applicable

Summary:

- On November 24, 2020, the City Council considered and approved the Debt Management Policy,
- Council directed that members be provided the opportunity to submit potential revisions to the Policy. Former Councilmembers Bruins and Pepper provided suggested revisions. Their comments were reviewed by the Financial Commission during its April 19, 2021 meeting.

Staff Recommendation:

Adopt Resolution No. 2021-26 revising the Debt Management Policy.

Reviewed By:

City Manager

BK

City Attorney

JH

Deputy City Manager

JM



Subject: Resolution No. 2021-26: Debt Manage Policy Revision

Purpose

To adopt a resolution revising the Debt Management Policy.

Background

On November 24, 2020, the City Council reviewed and approved the City's Debt Management Policy. The Debt Management Policy is in accordance with Senate Bill 1029 which requires local agencies adopt a comprehensive written debt management policy pursuant to the recommendations of the Government Finance Officers Association (GFOA). The Debt Management Policy governs how and when the City utilizes debt financing.

As part of the November 24, 2020 discussion, Council directed that members be given the opportunity to provide suggested revisions. Former Councilmembers Bruins and Pepper provided revisions.

Discussion/Analysis

On April 19, 2021, the Financial Commission reviewed and provided input on the proposed changes and recommended adoption of the revised Policy. Per the discussion during the meeting, the Financial Commissioners recommended the following revisions;

- (1) Under Section 3. Policies, A. Purpose For Which Debt May Be Issued, the Commission recommended the removal of the paragraph, "The issuer will consider the use of debt financing ...".
- (2) Under Section 3. Policies, (ii) Short Term Debt, the Commission recommended removal of the term length of 7 years or less because that time frame contradicts with current definitions of short-term loan lengths.
- (3) Under Section 3. Policies, D. Policy Goals Related to Planning Goals and Objectives, the Commission recommended keeping the debt service savings equal to or greater than the suggested 3.0% of the refunded principal amount, 3.0% was the original suggested percentage recommended by the Loan Counsel on the initial policy.
- (4) Under Section 3. Policies, E. Internal Control Procedures, the Commission recommended amending the policy with "the City Manager or his/her designee" in addition to the Administrative Services Director with the responsibility of overseeing the internal controls for the Debt Management Policy.



Subject: Resolution No. 2021-26: Debt Manage Policy Revision

Options

1) Adopt resolution approving the revised Debt Management Policy.

Advantages: Incorporates further revisions to the previously adopted Debt Management Policy.

Disadvantages: None identified

2) Do not approve the resolution.

Advantages: The previously adopted Debt Management Policy will remain in place

Disadvantages: Certain revisions will not be incorporated into the Debt Management Policy.

Recommendation

The Financial Commission recommends Option 1.

RESOLUTION NO. 2021-26

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LOS ALTOS
APPROVING REVISED DEBT MANAGEMENT POLICY IN COMPLIANCE
WITH SB 1029**

WHEREAS, SB 1029 (amending California Government Code section 8855) has been signed into law and imposes a new requirement on local government agencies who will issue debt in 2017 and thereafter; and

WHEREAS, on November 24, 2020, the City Council adopted a Debt Management Policy to facilitate and better manage the City’s existing and future debt, and to comply with the requirements of State law; and

WHEREAS, the City Council wishes to revise the Debt Management Policy to incorporate changes as recommended by City Council members and the Financial Commission.

NOW THEREFORE, BE IT RESOLVED, that the City Council of the City of Los Altos hereby determines as follows:

Section 1. Recitals. Each of the above recitals is true and correct and is adopted by the City Council.

Section 2. Debt Policy Approved. The "Debt Management Policy" attached hereto as Exhibit "A" is hereby approved and adopted as the debt management policy of the City, and supersedes all prior debt management policies of the City.

Section 3. Effective Date. This Resolution shall take effect upon its adoption by the City Council of the City.

I HEREBY CERTIFY that the foregoing is a true and correct copy of a Resolution passed and adopted by the City Council of the City of Los Altos at a meeting thereof on the 8th day of June, 2021, by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

Neysa Fligor, MAYOR

Attest:

Andrea M. Chelemengos, MMC, CITY CLERK

DEBT MANAGEMENT POLICY

This Debt Management Policy (the “Debt Policy”) of the City of Los Altos (the “Issuer”) was approved by the Issuer’s City Council on November 24, 2020. The Debt Policy may be amended by the City Council as it deems appropriate from time to time in the prudent management of the debt of the Issuer. This Debt Policy applies to the Issuer and all subordinate entities of the Issuer for which the City Council serves as the governing board.

1. Findings

This Debt Policy is intended to comply with Government Code Section 8855(i), effective on January 1, 2017, and shall govern all debt undertaken by the Issuer. The Issuer hereby recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the Issuer’s sound financial position.
- Ensure the Issuer has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the Issuer’s credit-worthiness.
- Ensure that all debt is structured in order to protect both current and future taxpayers, ratepayers and constituents of the Issuer.
- Ensure that the Issuer’s debt is consistent with the Issuer’s planning goals and objectives and capital improvement program or budget, as applicable.

2. Overall Guiding Principles

The City should plan the use of debt in a manner that sustains financing payments at manageable levels.

The City will seek to maintain a high credit rating through sound financial practices as a basis for minimizing borrowing costs.

The City will make every effort to use pay-as-you-go financing for capital improvement projects. Debt financing for a project can be used if the overall project cost exceeds anticipated available resources and/or if the cost of financing is favorable as compared to the use of City investment holdings over the financing term.

The City will monitor all forms of debt annually in conjunction with the budget preparation process and report concerns and remedies, if necessary, to City Council.

The City will diligently monitor its compliance with bond covenants.

The City will not issue long-term debt to finance current operations. Debt financing should only be used for long-term capital improvement projects with a useful life exceeding the term of the financing and for which the project revenues or specific identified revenue sources are sufficient to service the long-term debt.

The City will use a lease-purchase method of financing for equipment if the lease rates are more favorable than the City’s expected overall investment rate of return.

The City will not incur general obligation indebtedness for public improvements which exceed in aggregate 15% of the assessed value of all real and personal property of the City as specified in the California Government Code Section 43605.

3. Policies

A. Purposes For Which Debt May Be Issued

The Issuer will consider the use of debt financing primarily for capital improvement projects (CIP) when the project's useful life will equal or exceed the term of the financing and when resources are identified sufficient to fund the debt service requirements. An exception to this CIP driven focus is the issuance of short-term instruments which are to be used for prudent cash management purposes as described below. Bonded debt should not be issued for projects with minimal public benefit or support or to finance normal operating expenses.

- (i) Long-Term Debt. Long-term debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and operated by the Issuer.
 - (a) Long-term debt financings are appropriate when the following conditions exist:
 - When the project to be financed is necessary to provide basic services.
 - When the project to be financed will provide benefit to constituents over multiple years.
 - When total debt does not constitute an unreasonable burden to the Issuer and its taxpayers and ratepayers.
 - When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.
 - (b) Long-term debt financings will not be considered appropriate for current operating expenses and routine maintenance expenses.
 - (c) The Issuer may use long-term debt financings subject to the following conditions:
 - The project to be financed must be approved by the City Council.
 - The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be.
 - The Issuer estimates that sufficient revenues will be available to service the debt through its maturity.

- The Issuer determines that the issuance of the debt will comply with the applicable state and federal law.
- (ii) Short-term debt. Short-term debt may be issued to provide financing for the Issuer's operational cash flows in order to maintain a steady and even cash flow balance. Short-term debt may also be used to finance short-lived capital projects; for example, the Issuer may undertake lease-purchase financing for equipment.
- (iii) Financings on Behalf of Other Entities. The Issuer may also find it beneficial to issue debt on behalf of other governmental agencies in order to further the public purposes of Issuer. In such cases, the Issuer shall take reasonable steps to confirm the financial feasibility of the project to be financed and the financial solvency of any borrower and that the issuance of such debt is consistent with the policies set forth herein. **In no event will the Issuer incur any liability or assume responsibility for payment of debt service on such debt.**

B. Types of Debt

For purposes of this Debt Policy, "debt" shall be interpreted broadly to mean bonds, notes, certificates of participation, financing leases, or other financing obligations. The use of the term "debt" in this Debt Policy shall be solely for convenience and shall not be interpreted to characterize any such obligation as an indebtedness or debt in contravention of any statutory or constitutional debt limitation.

The following types of debt are allowable under this Debt Policy:

- general obligation bonds
- bond or grant anticipation notes
- lease revenue bonds, certificates of participation and lease-purchase and lease-leaseback transactions
- other revenue bonds and certificates of participation
- loans
- tax and revenue anticipation notes
- land-secured financings, such as special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, as amended, and limited obligation bonds issued under applicable assessment statutes
- tax increment financing to the extent permitted under state law
conduit financings, such as financings for affordable housing and qualified 501c3 organizations

The Issuer may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy, **with except for derivatives. The Issuer shall not employ derivatives until the Debt Policy is amended and approved by City Council.** Debt shall be issued as fixed rate debt unless the Issuer makes a specific determination as to why a variable rate issue would be beneficial to the Issuer in a specific circumstance.

C. Relationship of Debt to Capital Improvement Program and Budget

The Issuer is committed to long-term capital planning. The Issuer intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the Issuer's capital budget and the capital improvement plan.

The Issuer shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues. The Issuer shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

The Issuer shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the Issuer's public purposes.

The Issuer shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

D. Policy Goals Related to Planning Goals and Objectives

The Issuer is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The Issuer intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the Issuer's annual operations budget.

It is a policy goal of the Issuer to protect taxpayers, ratepayers and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs. The Issuer will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.

When refinancing debt, it shall be the policy goal of the Issuer to realize, whenever possible, and subject to any overriding non-financial policy considerations, (i) minimum net present value debt service savings equal to or greater than **5.0%** of the refunded principal amount, and (ii) present value debt service savings equal to or greater than **100%** of any escrow fund negative arbitrage.

E. Internal Control Procedures

When issuing debt, in addition to complying with the terms of this Debt Policy, the Issuer shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds. **The Administrative Services Director has the responsibility to oversee the internal controls.**

The Issuer will periodically review the requirements of and will remain in compliance with the following:

- any continuing disclosure undertakings under SEC Rule 15c2-12 or annual disclosure obligations under Government Code section 8855(k),
- any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues, and
- the Issuer's investment policies as they relate to the investment of bond proceeds. Proceeds of debt will be held either (a) by a third-party trustee, which will disburse such proceeds to the Issuer upon the submission of one or more written requisitions, or (b) by the Issuer, to be held and accounted for in a separate fund or account, the expenditure of which will be carefully documented by the Issuer.

The Issuer shall be vigilant in using bond proceeds in accordance with the state purpose at the time that such debt was issued.

Quarterly status reports will be provided to the Financial Commission and semi-annual status reports will be provided to the City Council that provide detailed reports on the disbursement of debt by the third-party trustee or by the Issuer, including full documentation of such disbursements and other relevant information.

F. Amendment and Waivers of Debt Policy

The Debt Policy will be reviewed and amended from time to time as appropriate, subject to City Council approval. Should circumstances arise when strict adherence to a provision of this Debt Policy is not possible or not in the best interest of the Issuer and City staff has determined that a waiver of one or more provisions of this Debt Policy should be considered by the City Council, staff will prepare an analysis for the City Council describing the rationale for the waiver and the impact of the waive on the proposed debt issuance and on taxpayers, if applicable.

G. Professional Assistance

The Issuer shall utilize the services of independent Municipal Advisors and Bond Counsel (or General Counsel as appropriate) on all debt financings. The Administrative Services Director shall have the authority to periodically select service providers as necessary to meet legal requirements and minimize net Issuer debt costs. Such services, depending on the type of financing many include financial advisory, underwriting, trustee, bond counsel, disclosure

ATTACHMENT 2

counsel, and special tax consulting. The goal in selecting service providers, whether through a competitive process or when appropriate, a sole-source selection, is to achieve an appropriate balance of service and cost.