

Regular 5-27-97
Item # CA-3
CCM/R 97-54R

CITY COUNCIL MEMORANDUM

AGENDA ITEM

DEBT MANAGEMENT POLICY

ORIGINATING DEPARTMENT

FINANCE *CB*

BACKGROUND INFORMATION

The City Council has identified a need to adequately plan for major capital outlay and water and sewer infrastructure improvements programs. This process is evident in the recently completed Water and Sewer Master Plan which calls for the consideration of \$45 million in water and sewer improvements projects. The issuance of debt to finance these and other capital improvement projects has become an increasingly important component of the City's financial management strategy. The City Council needs to adopt a formal Debt Management Policy to establish guidelines for the planning, implementation, and evaluation of the debt program and the City's ability to service such debt. The Debt Management Policy is designed to provide guidance to all participants in the capital improvement process. As project request are evaluated, and funding decisions are considered, the acceptable level of debt issuance, and tax and fee increases should be clearly indicated in the City's debt management policies.

DISCUSSION/CONCLUSION

The staff has prepared a Debt Management Policy document for consideration by the City Council. This document will serve as a policy directive to the staff in matters which involve the issuance of debt. The policy addresses several areas:

- 1) The acceptable levels of debt which the City may incur. This criterion is evaluated in terms of the maximum amount of debt allowed by the City Charter and State Law and also by the acceptable level of debt that can be incurred without jeopardizing the City's credit ratings.
- 2) The purpose for which debt will be issued and the appropriate type of debt to be issued.
- 3) Guidelines for issuance of short-term debt and evaluation of the debt service fund using recognized criteria and performance measurement standards.

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- 4) Use of tax-supported, general obligation bonds versus self-supporting, revenue bonds.
- 5) The evaluation of "pay-as-you-go" financing versus debt financing.
- 6) Use of fixed versus variable rate debt; and the structure of each type of debt issued.
- 7) Debt maturity schedules.
- 8) Selection of Financial Consultants, Legal Bond Counsel, Bond Underwriters, Paying Agents, and other service providers.
- 9) Use of bond credit rating agencies.
- 10) Other matters which are relevant to the City's credit standing.

RECOMMENDATION

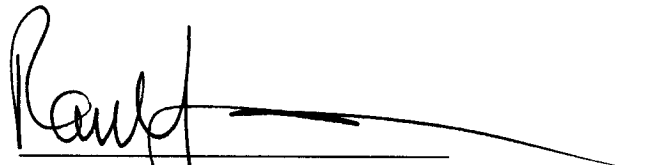
The staff recommends that the City Council adopt the attached Debt Policy. The adoption of this policy will assist the City Council in evaluating the impact of each funding decision on the City's debt position and credit quality. In addition, the policy will enable the City Council to identify and address potential credit concerns before they are raised by the rating agencies or other interested parties.

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF KILLEEN:

That the above stated staff recommendation is hereby approved and authorized.

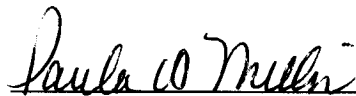
PASSED AND APPROVED at a regular meeting of the City Council of the City of Killeen, Texas this 27th day of May, 1997, at which meeting a quorum was present, held in accordance with the provisions of V.T.C.A. Government Code, Section 551.001 et. seq.

APPROVED

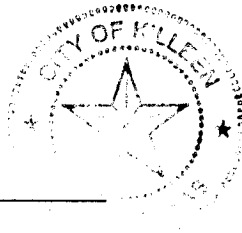


Raul G. Villaronga
MAYOR

ATTEST:



Paula A. Miller
CITY SECRETARY



Attachments:
List Attachments:
Debt Management Policy
Supplement - Elected Official's Guide to Debt Issuance

APPROVED AS TO FORM:



D.A. Blackburn
ASSISTANT CITY MANAGER \ CITY ATTORNEY

CITY OF KILLEEN, TEXAS

DEBT MANAGEMENT POLICY

I. SELECTION OF FINANCE CONSULTANTS AND SERVICE PROVIDERS

The City's Director of Finance shall be responsible for establishing a solicitation and selection process for securing professional services that are required to develop and implement the City's debt program. Goals of the solicitation and selection process shall include encouraging participation from qualified service providers, both local and national, and securing services at competitive prices.

A. Bond Counsel. As part of the responsibility to oversee and coordinate the debt management policy, the Director of Finance shall make recommendations to the City Council regarding the selection of Bond Counsel to be employed and the duration of the employment for individual or series of financing. The solicitation and selection process for such services will comply with State requirements for Professional, Technical, and Expert Services.

B. Underwriters. The Director of Finance shall solicit proposals for underwriting services for all debt issued in a negotiated or private placement sale mode. The solicitation process used for these services shall comply fully with State requirements for Professional, Technical, and Expert Services. The selection of underwriters may be for an individual or series of financing or specified time period.

C. Financial Advisor. The Director of Finance shall make a recommendation to the City Council regarding the selection of financial advisors to be employed and the duration of such employment. The solicitation and selection process for such services will comply with State requirements for Professional, Technical, and Expert Services. The time period for employment may relate to an individual or a series of financing, or for a specified period of time.

D. Paying Agent. The Director of Finance shall solicit periodically for paying agent services from qualified commercial and trustee banks. The cost of providing such services shall be used by the Finance Director, along with other qualitative measurements, in developing a Paying Agent recommendation to City Council, along with the term of such agreement.

E. Other Service Providers. The Director of Finance shall periodically solicit for other service providers (escrow agents, verification agents, trustees, etc.). The cost of providing such services shall be used by the Finance Director in developing a recommendation to City Council, along with the terms of such agreement.

II. COMPREHENSIVE CAPITAL PLANNING AND FINANCING SYSTEM

A. Capital Planning and Financing System. The City shall develop a capital planning and financing system for use in preparing a multi-year Capital Improvement Plan for consideration by the City Council as part of the City's budget process. The City Manager shall prepare recommendations to the City Council for projects to be included in a multi-year capital improvements plan. This plan shall be for the coming three fiscal years and shall be updated periodically. The Plan shall contain a comprehensive description of the sources of funds and the timing of capital projects for future operating and capital budgets, effect of the projects on future debt sales, debt outstanding, and debt service requirements, and the impact on future debt burdens and current revenue requirements.

In this latter regard, the Plan shall, analyze the conformance of the planned financing with policy targets regarding the (1) magnitude and composition of the City's indebtedness, and (2) the economic and fiscal resources of the City to bear such indebtedness over the next three years. Affordability impacts of the Plan shall be evaluated in consultation with the various City departments.

B. Debt Calendar and Financing Priorities. It shall be the responsibility of the Director of Finance, within the context of the Capital Improvement Plan, to oversee and coordinate the timing, process of issuance, and marketing of the City's borrowing and capital funding activities required in support of the Plan. In this capacity, the Finance Director shall make recommendations to the City Council regarding necessary and desirable actions and shall keep it informed through regular and special reports as to the progress and results of current-year activities under the Plan.

C. Maintenance, Replacement and Renewal. Consistent with its philosophy of keeping its capital facilities and infrastructure systems in good repair and to maximize the capital stock's useful life, the City should set aside sufficient current revenues to finance ongoing maintenance needs and to provide reserves for periodic replacement and renewal.

D. Debt Authorization. No City debt issued for the purpose of funding capital projects shall be authorized by the City Council unless it has been included in a report of the impact of the contemplated borrowing on the existing Capital Improvement Plan and recommendations as to the financing arrangements from the Finance Director.

III. LIMITATIONS ON CITY INDEBTNESS

A. Authority for the issuance and sale of Bonds: The City has the authority to issue bonds and time warrants under Article VI sections 66 and 67 of the City Charter. These sections state that the City of Killeen shall have the right and power to issue its general obligation bonds on the full faith and credit of the City, payable from ad valorem taxes not to exceed the maximum rate permitted by the Texas Constitution, for the purpose of providing permanent public improvements or for any other public purpose. The City shall have the right and power to issue its revenue bonds payable from the revenues of any municipally owned utility or utilities, and may secure such revenue bonds by a mortgage or deed of trust on the physical properties of such utility or utilities. The City also shall have the right and power to issue interest bearing time warrants pursuant to Article 2368a, Vernon's Annotated Civil Statutes. All bonds and warrants of the City of Killeen shall be issued pursuant to the procedures and requirements established by the general laws of the State of Texas.

B. Target Limitations on Tax General Obligation Indebtedness. The City shall as a matter of policy, conduct its finances so that the amount of direct, tax support general obligation debt service payments outstanding at any time that is subject to approval by the voters (excluding long-term, non-self supporting leases) does not exceed 2.5% of the City's taxable assessed valuation.

C. Target Limitations on Lease-Purchase Financing of Equipment and Furnishings. The City may enter into short-term lease purchase obligations to finance the acquisition of capital equipment and furnishings with estimated useful lives of less than ten years.

D. Limitations on General Fund Loan Guarantees and Credit Support. As part of the City's financing activities, General Fund resources may be used to provide credit support or loan guarantees for public or private developments that meet high priority City needs. Before such General Fund commitments are made, specific policy goals and objectives that determine the nature and type of projects qualifying for such support, and specific limitations to be placed on the maximum amount of General Fund resources pledged to such projects shall be developed.

The City Manager shall be responsible for coordinating the development of such policies and goals, which shall not take effect until approved by the City Council. General Fund loan guarantees shall be subject to the overall debt limitations set for in B above.

Recognizing the limited capacity of the City's General Fund to support both ongoing operating programs and secure long-term debt obligations, use of General Fund resources to secure obligations must first be approved by the City Council. Key factors that will be considered in determining whether or not the General Fund should be used to secure a particular debt obligation will include the following:

1. Demonstration of underlying self-support, thus limiting potential General Fund financial exposure.
2. Use of General Fund support as a transition to a fully stand alone credit structure, where interim use of the General Fund credit support reduces borrowing costs and provides a credit history for new or hard to establish credits.
3. General Fund support is determined by the City Council to be in the City's overall best interest.

E. Target Limitations on the Issuance of Revenue-Secured Debt Obligations. The City shall seek to finance the capital needs of its revenue producing enterprise activities through the issuance of revenue-secured debt obligations. Prior to issuing revenue-secured debt obligations, the Finance Director, will develop financial plans and projections showing the feasibility of the planned financing, required rates and charges needed to support the planned financing, and the impact of the planned financing on ratepayers, property owners and other affected parties.

IV. STRUCTURE AND TERM OF CITY INDEBTEDNESS

A. Rapidity of Debt Repayment. Generally, borrowings by the City should be of a duration that does not exceed the economic life of the improvement that it finances and where feasible should be shorter than the projected economic life. Moreover, to the extent possible, the City should design the repayment of debt so as to recapture its credit capacity for future use.

B. Use of Variable-Rate Securities. When appropriate, the City may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities. The decision to issue such securities must be reviewed and approved by the City Manager and the Director of Finance, in consultation with the City Financial Advisors, before the City Council is requested to approved their issuance.

C. Pledge of Restricted Funds to Secure Debt. The City has the power to make an irrevocable pledge of a security interest in an account created exclusively for the security of holders of City obligations. Before such funds are used to secure a prospective financing, policies regarding the use of such restricted funds shall be developed by the Director of Finance to ensure that the use of such funds to secure bonds does not violate restrictions on such funds and that underlying program commitments can be maintained in addition to meeting debt service obligations on debt secured by the restricted funds. These policies shall be presented as recommendations to Council prior to or at the time issuance of the secured debt is to be authorized.

D. Use of Subordinate Lien Obligations. Creation of the subordinate lien financing structure, if appropriate, shall be based on the overall financing needs of the City, expected credit ratings, relative cost of a subordinate lien structure, and impacts on the City. The Director of Finance shall present the results of this review in the form of a recommendation to Council for consideration prior to or at the time such bonds are being authorized.

V. METHOD OF SALE

A. Competitive Sale. The City, as a matter of policy, shall seek to issue its debt obligations in a competitive sale unless it is determined that such a sale method will not produce the best results for the City. In such instances where the City in a competitive bidding for its debt securities (whether general obligation or non-general obligation debt) deems the bids as unsatisfactory or does not receive bids, it may, at the election of the City Council, enter into negotiation for the sale of the securities.

B. Negotiated Sales. The City may elect to sell its debt obligations through a negotiated sale. Such determination may be made on an issue by issue basis, for a series of issues, or for part or all of a specific financing program. Selection of the underwriting team shall be made pursuant to selection procedures set forth in these Debt Policies.

C. Private Placement. The City may elect to sell its debt obligations through private placement or limited public offering. Selection of the placement agent shall be subject to the approval of City Council.

D. Official Bid Form. The City shall design an official bid form to be made part of the each official notice of sale published in conjunction with the sale of debt securities in a competitive sale by the City.

VI. SHORT-TERM DEBT AND INTERIM FINANCING

A. Lines and Letters of Credit. Where their use is judged to be prudent and advantageous to the City, the City has the power to enter into agreements with commercial banks or other financial entities for purposes of acquiring lines or letters of credit that shall provide the City with access to credit under terms and conditions as specified in such agreements. Before entering into any such agreements, takeout financing for such lines or letters of credit must be planned for and determined to be feasible by the Director of Finance. Any agreements with financial institutions for the acquisition of lines or letters of credit shall be approved by the City Council.

B. Bond Anticipation Notes. Where their use is judged to be prudent and advantageous to the City, the City may choose to issue Bond Anticipation Notes as a source of interim construction financing. Before issuing such notes, takeout financing for such notes must be planned for and determined to be feasible by the Director of Finance. Bond Anticipation Notes may be sold in either a competitive or negotiated sale, subject to authorization and approval by the City Council.

C. Tax and Revenue Anticipation Notes. Where their use is judged to be prudent and advantageous to the City, the City may choose to issue Tax and Revenue Anticipation Notes to fund internal working capital cashflow needs. Before issuing such notes, cashflow projections will be prepared by the Director of Finance. Tax and Revenue Anticipation Notes may be sold in either a competitive or negotiated sale, subject to authorization and approval by the City Council.

VII. REFUNDING OF CITY INDEBTNESS

A. Debt Service Savings - Advance Refundings. The City may issue advance refunding bonds (as defined for federal tax law purposes) when advantageous, legally permissible, prudent, and net present value savings, expressed as a percentage of the par amount of the refunding bonds, indicates that an advance refunding is in the City's overall best financial interests.

B. Debt Service Savings - Current Refundings. The City may issue current refunding bonds (as defined for federal tax law purposes) when advantageous, legally permissible, prudent, and net present value savings are significant.

C. Restructuring of Debt. The City may choose to refund outstanding indebtedness when existing bond covenants or other financial structures impinge on prudent and sound financial management. Savings requirements for current or advance refundings undertaken to restructure debt may be waived by the City Council upon a finding that such a restructuring is in the City's overall best financial interests.

D. Open Market Purchase of City Securities. The city may choose to defease its outstanding indebtedness through purchases of its securities on the open market when market conditions make such an option financially feasible. The Director of Finance shall be responsible for developing procedures for executing open market purchases and the savings objectives to be achieved by undertaking such actions.

VIII. USE OF CREDIT ENHANCEMENT

The City shall seek to use credit enhancement (letters of credit, bond insurance, surety bonds, etc.) when such credit enhancement proves cost-effective. Selection of credit enhancement providers shall be subject to a review process developed by the Director of Finance. Credit enhancement may be used to improve or establish a credit rating on a City debt obligation even if such enhancement is not cost effective if, in the opinion of the Director of Finance, the use of such credit enhancement meets the City's debt financing goals and objectives.

IX. REBATE REPORTING AND COVENANT COMPLIANCE

The Director of Finance shall establish a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. This effort shall include tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the City's outstanding debt issues. Additionally, general financial reporting and certification requirements embodied in bond covenants shall be monitored to ensure that all covenants are complied with.

X. CONDUIT FINANCING

The City may sponsor conduit financing for those activities (i.e., economic development, housing, health facilities, etc.) that have a general public purpose and are consistent with the City's overall service and policy objectives. All conduit financing must insulate the City completely from any credit risk or exposure and must be approved by the City Council for authorization and implementation.

XI. FINANCING PROPOSALS

Any capital financing proposal made to any City department, division, or Commission involving a pledge or other extension of the City's credit through the sale of securities, execution of loans or leases, or making of guarantees or otherwise involving directly or indirectly the lending or pledging of the City's credit shall be referred to the Director of Finance, who in a timely manner shall be responsible for analyzing the proposal and submitting a recommendation on the proposal to the City Council for approval.

XII. OTHER POLICIES AND REQUIREMENTS

A. Annual Audit of City. The annual audit of the City shall describe in detail all funds and fund balances established as part of any direct debt financing of the City. The audit may also contain a report detailing any material or rate covenants contained in any direct offering of the City and whether or not such covenants have been satisfied.

XIII. CREDIT RATINGS

A. Rating Agency Relationships. The Director of Finance shall be responsible for maintaining relationships with the rating agencies that currently assign ratings to the City's various debt obligations. This effort shall include providing periodic updates on the City's general financial condition along with coordinating meetings and presentations in conjunction with a new debt issuance.

B. Use of Rating Agencies. The City Manager and the Director of Finance shall be responsible for determining whether or not a rating shall be requested on a particular financing, and which of the major rating agencies shall be asked to provide such a rating.

C. Minimum Long-Term Rating Requirements. The City's minimum rating requirement for its direct, long-term, debt obligations is a rating of "A" or higher. If such a debt obligation cannot meet this requirement based on its underlying credit strength, then credit enhancement shall be sought to ensure that the minimum rating is achieved. If credit enhancement is unavailable or is determined to be uneconomical, then the obligations may be issued without a rating, subject to prior approval by the City Council.

XIV. ONGOING DISCLOSURE

The Director of Finance shall be responsible for providing ongoing disclosure information to established national information repositories and for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies.