

1. 1. Agenda

Documents:

[2018-07-31 FINANCE AGENDA.PDF](#)

2. 2. Transfer And Close Fund 301 – Debt Reserve Fund

Documents:

[2. MEMO -TRANSFER AND CLOSE FUND 301.PDF](#)

3. 3. Review Debt Management Policy

Documents:

[3. MEMO -DEBT MANAGEMENT POLICY.PDF](#)
[3A. DEBT MANAGEMENT POLICY.PDF](#)



**City Council Finance Committee
Tuesday, July 31, 2018 at 7:00 pm or immediately
following the Joint Committee Meeting
City Hall – Public Meeting Room**

AGENDA

1. Call to Order
2. Transfer and Close Fund 301 – Debt Reserve Fund
3. Review Debt Management Policy
4. Adjourn

Please contact the City Administrator's Office if you need special accommodations while attending this meeting



Council Committee Memorandum

TO: Finance Committee
THROUGH: Tim Murray, City Administrator
FROM: Karla McCall, Finance Director
MEETING DATE: July 31, 2018
SUBJECT: Transfer and Close Fund 301 – Debt Reserve Fund

Discussion:

While updating the debt service funds for the 2019 budget, we see that the 2011A GO Equipment Certificates become callable on 2/1/2019. The final scheduled payment is on 2/1/2021, so there are two years that can be paid off in 2019. The total principal of the payoff is \$405,000 with a savings in interest of \$34,105 if the bonds are called on 2/1/19. The remaining 2014A equipment certificates are callable in 2021, with the outstanding principal amount of \$130,000 remaining after 2019.

During the audit this year, the Debt Reserve Fund (301) was questioned by the auditors due to the absence of specific debt for this "debt service" fund. I explained that we plan to spend these funds down and/or transfer the funds to a more appropriate capital improvement fund this year, and close fund 301.

This fund had a balance of over \$1,600,000 and \$400,000 was transferred out to fund 437 (Facilities Improvement Fund) for the purchase of the KC Building and future site improvements. The current balance is \$1,245,482, which can be reserved, in part, for the pay off and future payments of the equipment certificates remaining on the City's books.

Recommendation:

Staff recommends use of cash available in the Debt Reserve Fund 301 as follows:

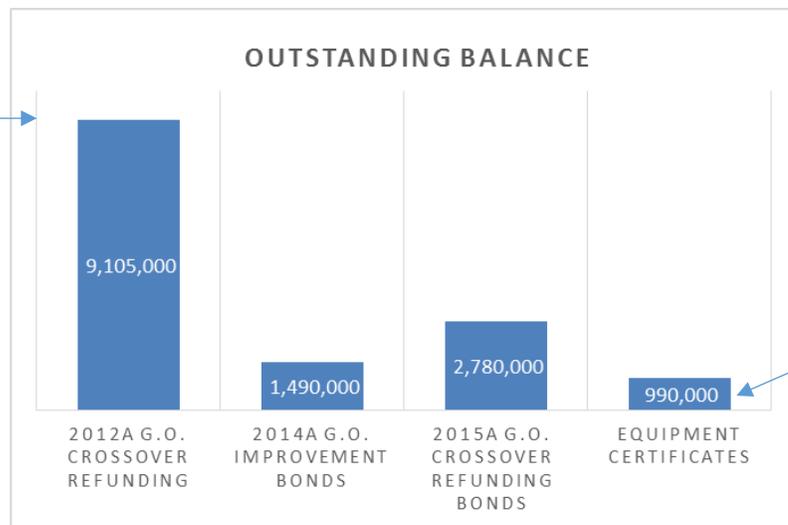
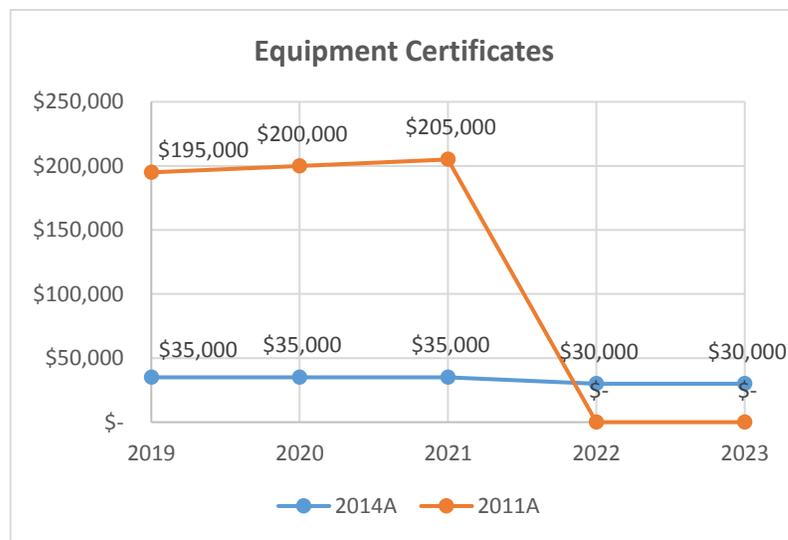
1. Transfer \$405,000 of the remaining balance in fund 301 to fund 360 to make the 2020 and 2021 principal balance and call the 2011A Equipment Certificate Bonds on 2/1/2019

2. Transfer \$230,000 from fund 301 to the Equipment Certificates fund 360 to make the 2019 debt payments and reduce the levy required for these debt issues.
3. Transfer \$130,000 to fund 360 for the 2014A Equipment Certificates debt service fund to use for calling these bonds in 2021.

If these transfers are made, there would be a reduction in the outstanding debt for equipment certificates in 2019 and reserved funds for the remaining 2014A Equipment Certificates for payoff in 2021.

The balance in fund 301 of \$1,245,482, less the amounts noted above to retire equipment certificate debt (\$765,000), leaves an amount of \$480,482. This remaining balance should be transferred to the 2012A G.O. Crossover Refunding Fund (344) to help manage future levy requirements for this debt issue.

Additional Information:



Balances as of 12/31/17

Balance at 12/31/18 = \$765,000



Council Committee Memorandum

TO: Finance Committee
THROUGH: Tim Murray, City Administrator
FROM: Karla McCall, Finance Director
MEETING DATE: July 31, 2018
SUBJECT: Review Debt Management Policy

Discussion:

Management of debt is another area that requires a written policy. Attached is a draft policy for review by the Finance Committee. The City Council has previously approved the Fund Balance Policy and the Investment Policy. Additional financial policies should be created or updated.

There are some basic financial policy categories that should be considered for adoption. These categories include:

- General Fund Reserves ✓
- Reserves in Other Funds ✓
- Grants ✓
- Debt
- Investment ✓
- Economic Development
- Accounting and Financial Reporting
- Risk Management and Internal Controls
- Procurement (Purchasing)
- Long-Term Financial Planning
- Capital Assets
- Revenues
- Expenditures ✓
- Operating Budget

Attachments:

Draft Debt Management Policy



Debt Management Policy

Purpose: The purpose of this policy is to provide guidelines to maintain creditworthiness, determine purposes and uses of debt, provide debt standards and structure, and administer the debt process.

1. PURPOSE

This policy has been developed to serve as a reference point for the management of city debt. Debt will be used to fund only capital projects or the purchase of capital assets that will continue to provide a benefit to the community during the term of the debt. Debt will not be used to finance operating expenditures.

2. GUIDELINES

A. Creditworthiness Objectives:

1. **Credit Ratings:** The City seeks to maintain the highest possible credit rating consistent with the City's financial objectives. The City will maintain a long-term rating with one or more of the following agencies: Moody's Investors Service, Standard & Poor's, or Fitch. Maintaining or improving the City's bond rating is an important objective of the City. Accordingly, the City will strive for continual improvement in its financial policies, practices, and performance.
2. **Financial Disclosure:** The City is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, City departments and agencies, other levels of government, and the general public to share clear, comprehensible, and accurate financial information. The City is committed to continuing disclosure of financial and pertinent credit information relevant to the City's outstanding securities and will abide by the provision of Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary market disclosure.
3. **Capital Planning:** To enhance creditworthiness and prudent financial management, the City is committed to systematic capital planning and long-term financial planning.
 - a. Evidence of this commitment to systematic capital planning will be demonstrated through the adoption and periodic adjustment of a Capital Improvement Plan (CIP) and the annual adoption of a Long-Term Financial Plan (LTFP).
 - b. The budgetary impact of debt service expenditures for proposed debt will be illustrated in the LTFP as adopted, or modified by the City Council.
4. **Statutory Debt Limits:** The City will keep outstanding debt within the limits prescribed by State Statutes.

B. Purposes and Uses of Debt:

1. The City will consider long-term financing for the acquisition, improvement, replacement, or expansion of physical assets (including land) only if they have a useful life of at least five years. Long-term street improvements will be considered for financing when other funding is not available.
2. The City shall issue debt only as specifically approved by City Council. Expenditures of such monies shall be in strict accordance with the designated purpose.
3. The improvement will be financed over a period not exceeding the estimated useful life or average useful lives of the improvement or improvements to be financed.
4. Factors to consider when determining whether to issue debt include:
 - Whether there are sufficient current resources to fund the improvement;
 - Whether it is in the best financial interest of the City, considering the costs of issuance relative to investment opportunities;
 - Whether it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries; and
 - Whether the cost of the improvement is at least \$500,000.
5. The City shall to finance the capital needs of the enterprise activities through the issuance of revenue-secured debt obligation (including revenue-secured general obligation bonds). The City will determine that projected revenues are sufficient to re-pay the debt. These revenues shall be conservatively projected.
6. Debt service expenditures shall take priority over all other expenditures in the annual budget.
7. Conduit debt is debt payable by third parties for which the City does not provide credit or security. The City may sponsor conduit financings in the form of Industrial Revenue Bonds and similar instruments for economic development activities that have a general public purpose. The City must approve the proposed borrowing based on a review that includes an assessment of the borrower's creditworthiness and credit rating. The City shall also review the request for appropriateness for the City to be associated with the purpose of the borrowing issue. The review for appropriateness shall reflect sound public policy and if there is a contingent impact on the City such as marketability of the City's direct debt and collection of the general revenues of the City.

C. Debt Standard and Structure:

1. Term: Debt will be structured to achieve the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users.
2. Repayment Schedule: The City will seek to structure debt with relatively level debt service (principal and interest) costs over the life of the debt, but may structure new debt to maintain a level over-all debt service levy for general obligation debt.
3. Call provisions: Call features shall be no later than ten years from the date of delivery of the bonds. Calls shall be made as short as possible in context of seeking the optimal true interest cost. Calls should generally be at par.
4. Issuance costs: Costs such as bond counsel fees, financial advisor fees, registrar/paying agent fees, rating agency fees, printing costs, and underwriter's discount, will be charged to the bond issue to the extent allowable by law.

5. Refundings:
 - a. Periodic reviews of all outstanding debt will be undertaken to evaluate refunding opportunities.
 - b. Refunding will be considered if and when there is a new economic benefit of the refunding. In general, advance refundings will be undertaken when a net present value savings of at least two percent of the refunded debt can be achieved. Refundings that produce a net present value benefit of less than two percent will be considered on a case-by-case basis.

D. Debt Administration and Process:

1. Competitive versus Negotiated Sales:
 - a. In general, it is the policy of the City to issue debt through a competitive process. Bids will be awarded on a true interest cost basis (TIC), providing other bidding requirements are satisfied.
 - b. Negotiated sales of debt will be considered when the complexity of the issue requires specialized expertise, when the size of the issue may limit the number of potential bidders, when a negotiated sale would result in substantial savings in time of money, when the City has determined that all competitive bids received are unsatisfactory, or when market conditions or City credit are unusually volatile or uncertain.
2. Investment of bond proceeds: All bond proceeds shall be invested consistent with the City's investment policy. Investment of proceeds and records thereof will be structured to comply with the arbitrage compliance requirements of federal tax code.

THIS POLICY SPECIFICALLY REPEALS AND REPLACES PRIOR CITY POLICIES AND ADMINISTRATIVE MEMORANDA RELATIVE TO DEBT MANAGEMENT POLICIES.

Approved:

Mayor

City Administrator

Adopted August __, 2018