



REPORT TO COUNCIL

City of Sacramento

915 I Street, Sacramento, CA 95814-2604
www.CityofSacramento.org

Staff Report
August 24, 2010

**Honorable Mayor and
Members of the City Council**

Title: Debt Management Policy

Location/Council District: Citywide

Recommendation: Adopt a **Resolution** approving the City's Debt Management Policy.

Contact: Russell T. Fehr, City Treasurer, (916) 808-5832; Janelle Gray, Debt Manager, (916) 808-8296

Presenters: Janelle Gray, Debt Manager; Russell T. Fehr, City Treasurer

Departments: City Manager / City Treasurer

Division: Debt

Organization No: 05001011

Description/Analysis:

Issue: The City does not have a current formally adopted Debt Management Policy. While the City's values and debt practices have remained constant over the years, financial market conditions have escalated the essentiality of a having a formally adopted Debt Management Policy.

Policy Considerations: A formally adopted Debt Management Policy is an industry best practices standard. It is intended to serve as an integrated component of citywide high-level fiscal policies, which set the foundation for managing the City's fiscal affairs and may include: Balanced Budget, Capital Financing, Revenue Management, Investment Policy, User Fee / Cost Recovery, and Financial Reporting.

The Debt Management Policy is intended to guide the City in the course of its customary practices. However, from time to time, certain circumstances may arise in which City Council may consider deviations where compelling or extraordinary circumstances exist.

Environmental Considerations:

California Environmental Quality Act (CEQA): This action is not subject to the CEQA because it is not a “project” as defined in section 15378 of the CEQA Guidelines.

Sustainability Considerations: None

Commission/Committee Action: None.

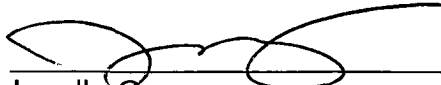
Rationale for Recommendation: The primary purpose of a Debt Management Policy is to articulate the guiding principles for City debt issuance and management before consideration of specific actions and before they are placed under stress. Adoption of a Debt Management Policy is intended to:

- Provide a consistent set of expectations regarding financial decision making
- Promote integration of long-range financial planning among competing demands and day-to-day operations
- Demonstrate to the credit rating agencies and investors the City’s commitment to sound financial management and fiscal integrity.

Financial Considerations: Adoption of a Debt Management Policy will have no direct financial impacts or costs. It provides financial benefits by establishing overall parameters for responsibly issuing and administering the City’s debt through equally important objectives.

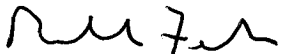
- Minimize debt service and issuance costs
- Maintain access to cost-effective borrowing
- Achieve and maintain highest practical credit rating
- Full and timely repayment of debt
- Maintain full and complete financial disclosure and reporting
- Ensure compliance with state and federal laws and regulations.

Emerging Small Business Development (ESBD): Not Applicable

Respectfully Submitted by: 

Janelle Gray
Debt Manager

Recommendation Approved:



Russell T. Fehr
City Treasurer

Recommendation Approved:



Gus Vina
Interim City Manager

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RESOLUTION NO. 2010-_____

Adopted by the Sacramento City Council

APPROVING A DEBT MANAGEMENT POLICY

BACKGROUND

- A. Debt financing of City projects can be a cost-effective means of providing key facilities and services. The City has a long history of working with various departments, residents, businesses, and other government agencies to derive the most effective financing solution for all involved.
- B. The purpose of a Debt Management Policy is to articulate the guiding principles for City debt issuance and management before consideration of specific action and before they come under stress. It further demonstrates the City's commitment to sound financial management.
- C. The City Manager and City Treasurer propose adoption of a Debt Management Policy to establish overall parameters for responsibly issuing and administering the City's debt.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

Section 1. The City's Debt Management Policy as set forth in Exhibit A to this Resolution is approved.

Table of Contents:

Exhibit A – Debt Management Policy

**CITY OF SACRAMENTO
Debt Management Policy**

I. Introduction

A. The City of Sacramento has a long history of issuing multiple types of debt and working with various City departments, residents, businesses, and other government agencies to derive the most effective financing solution for all involved. The purpose of a Debt Management Policy (Policy) is to articulate the guiding principles for City debt issuance and debt management before consideration of specific action. This Policy sets forth certain equally important objectives for the City and establishes overall parameters for responsibly issuing and administering the City's debt.

- Minimize debt service and issuance costs
- Maintain access to cost-effective borrowing
- Achieve and maintain highest practical credit rating
- Full and timely repayment of debt
- Maintain full and complete financial disclosure and reporting
- Ensure compliance with state and federal laws and regulations.

B. Scope of Application – These policies establish the parameters within which the City of Sacramento, or the Sacramento City Financing Authority on behalf of the City (hereinafter referred to as City), may issue debt. Additionally, these policies apply to debt issued by the City on behalf of assessment, community facilities, or other special districts, as well as conduit debt.

C. The Policy is intended to guide the City regarding its debt obligations in the course of its customary practices. However, from time to time, certain compelling circumstances may arise which would cause the City to deviate from the policies herein. The Council may consider deviations from the stated policies where compelling (or extraordinary) circumstances exist and City Treasurer's Office recommends the same.

II. Governing Authority and Responsibility

A. Authority – The City's debt program for all City funds shall be operated in conformance with applicable federal, state, and other legal requirements, including authorizing Sacramento City Codes.

B. Delegation of Authority – The City Council assigns responsibilities to the City Treasurer's Office for managing and coordinating all activities related to the

structure, issuance and administration of all long- and short-term debt obligations.

No debt obligations shall be presented to the City Council for their authorization without a joint assessment by and mutual recommendation of the City Manager's Office and City Treasurer's Office. Departments planning debt-financed capital programs or equipment acquisitions shall work in close coordination with City Treasurer's Office and the City Manager's Office to provide information and otherwise to facilitate the issuance and on-going administration of debt.

C. Point of Contact – The City Treasurer shall be responsible for maintaining good communication with rating agencies, investors, and other debt related service providers about the City's financial condition and will follow a policy of full disclosure.

D. The City Council, as a member of joint powers authorities, such as the Sacramento Regional Arts Facility Financing Authority, or member of another governing agency (e.g. Sacramento Area Flood Control Agency, Sacramento Transportation Authority), should take these policies into account when considering the issuance of debt that may impact the City .

E. Policy Review and Approval – The City Council has reviewed these policies. Any amendments to these policies shall be approved by the City Council. The City Treasurer's Office shall conduct an annual review of this policy and bring forward to City Council any amendments deemed necessary and appropriate.

F. Supplemental Policies – Supplemental policies, tailored for the specifics of the certain types of financings are referenced in these policies as Attachment A. In the event additional policies are adopted, an amended version of Attachment A reflecting such policies shall be attached to these policies. These supplemental policies may address, but are not limited to the City's general obligation, lease revenue, enterprise, redevelopment, or land-secured financings, and the use of various financing instruments such as variable rate debt and derivatives.

III. Capital Financing and Debt Management

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

A. Debt Capacity – the City will keep outstanding debt within the limits of the City Code's applicable law and regulations, specific bond covenants, and at a level consistent with these policies.

B. Feasibility – To insure its consistency with respect to the City’s debt management objectives, no debt obligations shall be undertaken or authorized without an assessment and recommendation of the City Manager’s Office and City Treasurer’s Office.

1. General Fund / Special Revenues - In conjunction with the City Treasurer’s Office, the Department of Finance shall cause an internal feasibility analysis to be prepared for each long-term financing that analyzes the impact on current and future budgets for debt service and operations. This analysis will also address the reliability of revenues to support debt service.

2. Enterprise Funds – Evaluating the affordability of new debt for enterprise funds, enterprise rate levels must fully cover debt service requirements, as well as, operations, maintenance, administration and capital improvement costs. The ability to afford new debt for enterprise operations will be evaluated as an integral part of the City’s rate review and setting process.

3. Redevelopment Authority – The City may consider the use of its debt capacity for legally allowable capital projects by public redevelopment authorities or other special purpose units of government.

4. Conduit – The City may agree to the issuance of bonds by the Association of Bay Area Governments (“ABAG”), California Statewide Community Development Authority (“CSCDA”) or a similar issuing conduit if the City is not making a loan or grant to the Project. Where the City is not the issuer of bonds for a Project within the City, it shall be the City’s policy to require the issuer to assume full responsibility for issuance and on-going compliance of the bond issue with federal tax and state law and regulations. Where feasible, however, the City shall seek to hold the Tax Equity and Fiscal Responsibility Act of 1986 (TEFRA) Hearing.

C. Capital Expenditure Considerations – The City will consider the following factors to evaluate pay-as-you-go versus debt financing to fund capital expenditures.

1. Factors favoring Pay-as-you-Go:

a) Current projected revenues and adequate fund balances are available or project phasing can be accomplished.

b) Long-term total costs are lower due to the avoidance of interest expense.

c) Existing debt levels adversely affect the City’s credit rating.

- d) Market conditions are unfavorable or present difficulties in marketing.
2. Factors favoring Debt Financing:
- a) Current and projected revenues available for debt service are sufficient and reliable so that financings can be marketed with investment grade credit ratings.
 - b) Market conditions present favorable interest rates and demand for the City financings.
 - c) A project is mandated by state or federal requirements, and current resources are insufficient or unavailable fully to fund the project(s).
 - d) The project is immediately required to meet or relieve capacity needs or emergency conditions and current resources are insufficient or unavailable.

IV. Debt Issuance

A. Purposes of Debt Issuance

1. 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 these costs over more than one budget year. Long-term debt may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing-related costs that may be legally capitalized. Long-term debt shall not be used to fund City operating costs.

2. Short-term Debt – Short-term debt will be considered as an interim source of funding in anticipation of long-term debt. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs.

Short-term debt is also appropriate to address legitimate short-term cash flow requirements during a given fiscal year to fund 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 returns.

3. Refunding – Periodic reviews of outstanding debt will be undertaken to identify refunding opportunities. Refunding will be considered (within federal tax law constraints) when there is a net

economic benefit of the refunding. Non-economic refundings may be undertaken to achieve City objectives relating to changes in covenants, call provisions, operational flexibility, tax status, issuer, or the debt service profile, etc. The City may purchase its bonds in the open market for the purpose of retiring the obligation when the purchase is cost effective.

B. Public Policy Discussion – Those projects involving the issuance of debt that may be controversial or of high public interest should be subject to public discussion through community meetings, outreach, and / or City Council meetings, etc.

C. Method Of Sale - Except to the extent a competitive process is required by law, the City Treasurer shall be responsible for determining the appropriate manner in which to offer any securities to investors. The City's preferred method is negotiated sale. However, other methods such as competitive sale and private placement may be considered on a case-by-case basis.

D. Pooled Financing – The City Treasurer on a case-by-case basis shall be responsible for determining the appropriate use of third party "Pools" to issue City debt obligations. Preferred method is direct issuance by the City.

E. Professional Assistance - The City Treasurer shall have the authority to periodically select service providers as necessary to meet legal requirements and minimize City debt costs. The City Treasurer will make such selections with the goal of achieving an appropriate balance between service (including experience, professional reputation, and market recognition) and cost. The City Treasurer is authorized, but not required, to select such services providers through sole source selection process of his or her choosing unless a competitive or other process is specifically required by law or these policies.

V. Debt Structure Features

A. Debt Repayment

1. Useful Life – The City shall structure its debt issues so that the maturity of the debt issue is consistent with the economic or useful life of the capital project to be financed.

2. Back loading – To the extent possible, long-term debt shall not be back loaded. The structure of the debt shall be a factor of pricing and cash flow determined on a case-by-case basis by the City Treasurer at the time of borrowing.

B. Credit Quality – The City seeks to obtain and maintain the highest possible credit ratings when required for issuing short- and long-term debt.

C. Fixed-rate Debt – Fixed-rate debt shall be the preferred method of pricing.

D. Variable-rate Debt – The City may choose to issue debt that pays a rate of interest that varies according to a pre-determined formula or index or results from a periodic remarketing of the debt. There may be situations in which the City will benefit from variable rate debt, it must be acknowledged, however, that issuing variable rate debt passes an unknown obligation onto future City Councils.

E. Derivatives – Derivative products may have application to certain City borrowing programs. The City Treasurer shall evaluate the use of derivative products on a case by-case basis to determine whether the potential benefits are sufficient to offset any potential costs and are consistent with state statutes and financial prudence.

F. Call Provisions – The timing for when bonds are callable varies and is determined at time of pricing. The City's preferred structure is to negotiate for optional redemption at par in order to maintain flexibility in the future. The City shall endeavor not to issue non-callable debt except to the extent it is legally required and / or market conditions dictate otherwise; non-callable debt should not be issued strictly to generate additional price savings.

VI. Debt Administration

A. Post Issuance Compliance – The City Treasurer's Office shall maintain written directives and procedures outlining required actions to ensure compliance with local, state, and federal regulations. Such directives should include: Continuing Disclosure, Arbitrage Rebate, Private Use Limitations, Other Tax Compliance Requirements and Permitted Investments of bond proceeds.

B. Refunding – The City Treasurer's Office will conduct periodic review of outstanding debt to identify refunding opportunities.

Supplemental Policies

City of Sacramento - Policies and Procedures For Use of Special Assessment and Mello-Roos Community Facilities District Financing For Infrastructure, Public Facilities, Programs and Services - Adopted June 29, 1993 [Resolution No. 93-381] / Updated August 9, 1994 [Resolution 94-491]

City of Sacramento - Development Fee Financing Program for Commercial, Industrial and Residential Development Projects – Adopted January 1997 [Resolution No. 97-002]

California Debt and Investment Advisory Commission - Appraisal Standards for Land-Secured Financings - Revised July 2004 [CDIAC #04-07]

City of Sacramento
Debt Management Policy

Presented to City Council

August 24, 2010

Fiscal Policies

- Provide guiding principles and values
- Important in both good and bad economic times
- Assists decision making by establishing guiding principles – before coming under stress
- Foundation on which plans are developed

Debt Management Policy Objectives

- Maintain access to cost-effective borrowing
- Minimize borrowing costs
- Achieve and maintain highest practical credit rating
- Ensure full and timely repayment of debt
- Ensure financial disclosure and reporting
- Compliance with state and federal laws

Delegation of Authority

- No debt obligations shall be presented to City Council without a joint assessment by and mutual recommendation of the City Manager's Office and the City Treasurer's Office
- City Treasurer:
 - responsible for structure, issuance and administration
 - maintaining relationship with rating agencies, investors, etc.
 - Role in document preparation & review

Delegation of Authority (2)

- City Manager & Delegated Departments:
 - project identification & priority
 - Source(s) of debt service
 - Sources for project O&M
 - Role in document preparation & review
- City Attorney
 - Independent check on adherence to law & reg.
 - Protect interests of City
 - Role in document preparation & review

Debt Issuance

- Long-term
 - Capital projects only
 - Not permitted for operating costs
- Short-term
 - Cash flow
 - Economical alternative to internal borrowing for meeting General Fund cash flow needs
 - Will not borrow solely for investment purposes
 - Will be *necessary* until reserves / fund balance / working capital reaches \$90M to \$100M. This will take years
 - May become ***required*** with further reduction in City's discretionary cash position

Debt Structure

- Fixed Rate – preferred
 - Passing known obligations to future City budgets
- Variable Rate
 - Issues in which City may benefit
 - Consistent with overall policy objectives
 - Passes unknown obligation on to future
- Derivatives
 - Financial prudence
 - Consistent with overall policy objectives

Summary – Debt Policy

- One element in comprehensive financial oversight to provide for long-term fiscal health
- Articulates values for all before coming under stress
 - Current status = City is tapped out & over-extended
- Basis for case-by-case decision-making in context of citywide needs & priorities