



**CONSENT CALENDAR**

**Agenda Item # 4**

**AGENDA REPORT SUMMARY**

**Meeting Date:** November 24, 2020

**Subject:** Debt Management Policy

**Prepared by:** Sharif Etman, Administrative Services Director

**Approved by:** Chris Jordan, City Manager

**Attachments:**

1. Resolution approving Debt Management Policy
2. Draft Debt Management Policy (November 2020)

**Initiated by:**

Staff

**Previous Council Consideration:**

None

**Fiscal Impact:**

None

**Environmental Review:**

Not applicable.

**Policy Question(s) for Council Consideration:**

Not applicable

**Summary:**

- Effective January 1, 2017, local agencies are required to have a debt management policy in place prior to approving any debt financing transactions
- City staff have worked with bond counsel (Jones Hall), municipal advisor (NHA Advisors, LLC) and the Finance Commission to develop and review the debt management policy
- The revised debt management policy will be necessary for the proposed Community Center

**Staff Recommendation:**

Approve resolution for the revised debt management policy in compliance with SB 1029.

---

**Reviewed By:**

City Manager

*CJ*

City Attorney

*JH*

Finance Director

*SE*

---



**Subject:** Debt Management Policy

---

### **Purpose**

It is recommended that the City Council, by resolution, approve a revised debt management policy in compliance with SB 1029.

### **Background**

Senate Bill 1029 requires that local agencies adopt a comprehensive written debt management policy pursuant to the recommendations of the Government Finance Officers Association (GFOA). The City is committed to fiscal sustainability by employing long-term financial planning efforts, maintaining appropriate reserve levels and employing prudent practices of governance, management and budget administration, and finance reporting. The attached revised debt management policy is intended to improve the quality of decisions, assist with the determination of the structure of debt issuance, identify policy goals, demonstrate a commitment to long-term financial planning and complies with SB 1029.

### **Discussion/Analysis**

The City is contemplating a loan to partially fund the Community Center Project. Prior to any formal approval of the financing, a debt management policy must be in place. The proposed revised debt management policy has been developed with the assistance of bond counsel (Jones Hall), the City's municipal advisor (NHA Advisors, LLC), the City Attorney and the Finance Committee.

### **Options**

- 1) Approve resolution related to the revised debt management policy.

**Advantages:** The City can move forward with financing for the Community Center project as planned.

**Disadvantages:** None

- 2) Do not approve the resolution.

**Advantages:** None

**Disadvantages:** The City will not have authority to enter into any financing.

### **Recommendation**

The staff recommends that the City Council, by resolution, approve a revised debt management policy in compliance with SB 1029.

# ATTACHMENT 1

## RESOLUTION NO. 2020-39

### 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.

**WHEREAS**, the City Council desires to adopt a "Debt Management Policy" to facilitate and better manage the City's existing and future debt, and to comply with the requirements of the new law.

**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 24<sup>th</sup> day of November, 2020, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

---

Janis C. Pepper, MAYOR

Attest:

---

Andrea M. Chelemengos, MMC, CITY CLERK



# CITY OF LOS ALTOS

## DEBT MANAGEMENT POLICY

NOVEMBER 2020

## 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. Policies

#### A. Purposes For Which Debt May Be Issued

(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 generally be considered appropriate for current operating expenses and routine maintenance expenses. However, the Issuer may consider issuance of debt for working capital purposes on a case-by-case basis.

(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 financed by more than 20%.
- 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 or private third parties 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.

## **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
- 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.

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 3.0% 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 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.