RESOLUTION NO. R-19-019

A RESOLUTION FOR ADOPTING A DEBT MANAGEMENT POLICY FOR THE CITY OF BRENHAM, TEXAS.

WHEREAS, the Government Finance Officers Association (GFOA) recommends that state and local governments adopt a comprehensive, written Debt Management Policy; and

WHEREAS, the Debt Management Policy dated August 1, 2019 complies with the GFOA recommendation; and

WHEREAS, the governing body desires to adopt a Debt Management Policy for the City of Brenham; and

NOW THEREFORE, BE IT RESOLVED by the City Council of the City of Brenham, Texas that:

Section 1: The City of Brenham Debt Management Policy attached hereto as "Exhibit A" is hereby adopted as the debt management policy of the City of Brenham effective August 1, 2019.

Section 2: This Resolution shall take effect immediately upon its passage.

PASSED and APPROVED on this 1st day of August, 2019.

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Milton Y. Tate, Jr.
Mayor

ATTEST:

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Jeana Bellinger, TRMC, CMC
City Secretary

“Exhibit A”
CITY OF BRENHAM
DEBT MANAGEMENT POLICY
August 1, 2019

1.0 POLICY

It is the policy of the City of Brenham to develop and maintain a sound, debt management program. This policy sets forth the criteria for debt financing decisions and establishes the parameters for issuing new debt, as well as, managing the outstanding debt portfolio. The Policy identifies the types and amounts of permissible debt that preserves the current bond rating in order to minimize borrowing costs and ensure access to credit.

2.0 SCOPE

The City of Brenham Debt Management Policy applies to all debt instruments issued by the City of Brenham, regardless of funding source. Funding sources can be derived from ad valorem taxes, general City revenues, enterprise fund revenues, internal service fund revenues, component unit revenues, or any other identifiable source of revenue that may be deemed as appropriate pledging for bonded indebtedness.

3.0 OBJECTIVES

The primary objective of the Debt Management Policy is to ensure that the City establishes and maintains a solid position with respect to its Debt Service Fund. The Policy is intended to demonstrate that proceeds from long-term debt will not be used for current operations but rather for capital improvements and other long-term assets. Compliance with the Debt Policy will facilitate compliance with applicable federal, state and local laws, the City’s charter provisions, and GFOA best practices.

Other objectives include:

A. Bonds will be paid back within a period not to exceed, and preferably sooner than, the expected useful life of the capital asset.
B. Debt decisions will be based on a number of criteria and will be evaluated against long-term goals rather than short-term fix.
C. Debt decisions will be integrated with the City’s Capital Improvement Program.
D. Debt service funds will be managed and invested in accordance with all federal, state and local laws.

4.0 CRITERIA

Debt funding is one of three methods for financing capital assets. Capital assets include vehicles, equipment, facilities, IT hardware/software, and infrastructure (e.g. streets, drainage, utility plants, utility distribution lines) with useful lives that exceed one year and costs that exceed $15,000. Major, non-routine, maintenance that increases an existing capital asset’s service capacity, useful function, or useful life is a capital investment and is eligible for long-term financing. In addition to debt funding, capital assets may be funded by pay-as-you-go (PAYGO) financing and public-private partnerships (P3). Historically, the City of Brenham has used PAYGO and debt financing for capital assets. PAYGO funds come from operating revenues and/or excess reserves.

The pros and cons in deciding PAYGO versus debt financing recommendations include:

PAYGO Financing	Debt Financing
Pros: • Future funds are not tied up in servicing debt payments • Interest savings can be put toward other projects • Greater budget transparency • Avoid risk of default Cons: • Long wait time for new infrastructure • Large projects may exhaust an agency's entire budget for capital projects • Inflation risk • Generational equity – the capital asset may primarily benefit future generations	Pros: • Infrastructure is delivered when it's needed • Spreads cost over the useful life of the asset • Increases capacity to invest • Capital asset's beneficiaries pay for the asset Cons: • Potentially high borrowing rate • Debt payments limit future budget flexibility • Diminishes the choice of future projects • Generations forced to service debt requirements

Source: OpenGov – Capital Financing 101

5.0 RECOMMENDATION RESPONSIBILITY

The primary responsibility for developing financing recommendations rests with the Chief Finance Officer. In developing the recommendations, the Chief Finance Officer shall be assisted by the Financial Advisor, City Manager, Strategic Budget Officer, and Controller. The Chief Finance Officer will be responsible for the following activities:

A. Meeting held no less than once a year with the City Manager and Strategic Budget Officer to consider the need for financing and assess progress on the Capital Improvement Program.
B. Annual update and review of Peer Benchmarking and Debt Capacity measures.
C. Annual review of Financial Advisor, Bond Counsel, Paying Agent and other service providers to evaluate the effectiveness and quality of services being provided.

6.0 DEBT STRUCTURE

Debt service will be structured, to the greatest extent possible, to match projected cash flows, minimize the impact of future property tax levies, and maintain a relatively rapid payment of principal. The term of the debt issuance should equal the lesser of the useful life of the asset being financed or the maximum maturity permitted by State law for the obligations issued to finance the acquisition and construction of the asset.

6.1 Fixed Interest versus Variable Interest

The City primarily issues fixed rate bonds to protect the City against interest rate risk. The City has the option to issue variable rate bonds and may, should market conditions warrant, consider such a structure after adoption of a separate variable rate policy. Commercial paper notes, due to their short term maturities (270 days or less), are treated as variable rate obligations.

6.2 Other Considerations

Usually, bonds are issued with a final maturity of approximately 20 years or less for general obligation bonds, certificates of obligation and revenue bonds but may be greater for some projects whose lives are greater than 20 years.

Typically, interest is paid in the first fiscal year after a bond sale and principal is paid no later than the second fiscal year after the debt is issued.

Call provisions for bond issues shall be made as short as possible consistent with the low interest rate cost to the City. The targeted maximum length to call is 10 years. However, the City may opt for a call date longer than 10 years in order to achieve the necessary goals of the particular issue.

A Reimbursement Resolution must be adopted by the City Council if it is anticipated that any costs will be funded prior to closing of the corresponding debt issuance. The Reimbursement Resolution must indicate the maximum amount that can be funded, the source of cash for the funding and that if the corresponding debt issue does not close, the City Council is willing to approve the appropriation of funding for the advance. No exceptions are allowed without formal City Council approval.

7.0 FINANCING ALTERNATIVES

It is the City's intent to develop a level of cash and debt funded capital improvement projects that provide citizens with the desired amount of City services at the lowest cost. The City may utilize several types of municipal debt obligations to finance long-term capital assets. Although debt is an obligation to be repaid, it can assume many forms. The form and character of debt is typically determined by the nature of the funding source and nature of the asset to be purchased or improved. In determining the type of security for financing an improvement or purchase of a capital asset, the City may consider the following types and forms of debt, but is not limited to the following:

7.1 General Obligation Bonds (GOB) will be used if the following criteria are met:

- Quality-of-life projects – Projects such as but not limited to the City's parks, museums, libraries, non-public safety facilities, aquatics, entertainment, sports and amusement-type facilities
- Any non-essential strategic initiative or project
- The size of the total issuance may result in a 5% or greater increase to the debt service I&S tax rate
- Useful life of assets acquired will be twenty (20) year or more or will extend the useful life of an asset for more than twenty (20) years
- Voter authorized debt.

7.1.1 The total dollar amount of the bond election propositions recommended to the voters shall not exceed the City's estimated ability to issue said bonds within a normal 6 year period.

7.1.2 The use of reimbursement resolutions shall be encouraged as a cash management tool for general obligation debt funded projects.

7.2 Certificates of Obligation will be used if the following criteria are met:

- Essential, non-quality-of-life projects
- Capital asset acquisitions (heavy equipment, fire vehicles with useful lives 20 years or greater and costs greater than $500,000)
- Rehabilitation and/or extension of the useful life of existing facilities
- Street reconstruction and improvements
- Drainage improvements
- Unpaved Rights of Way
- ADA retrofitting/rehabilitation projects
- Projects arising from federal or state mandates
- Street lighting
- Major core facilities (police, fire, streets, etc.)
- Emergency city facilities and/or infrastructure rehabilitation

Notwithstanding the Policy set forth herein and in section 7.1, certificates of obligation or other long-term debt may be considered if the following criteria are met:

- The need for the project is urgent and immediate
- The project(s) is necessary to prevent an economic loss to the City
- Source of revenue is specific and can be expected to cover the additional debt
- The expected debt is the most cost effective financing option available

In addition, the average maturity of non-voter approved debt shall not exceed the average life of the project financed. Reimbursement resolutions may be used for projects funded through certificates of obligation.

7.3 Certificates of Obligation – Enterprise Fund

Certificates of obligation for an enterprise system will be limited to only those projects which can be demonstrate the capability to support the certificate debt through its own revenues, or other pledged source other than ad valorem taxes and meet the same criteria as outlined in 7.2 above.

7.4 Revenue Bonds

Revenue bonds will be issued for projects that generate revenues that are sufficient to repay the debt. Except where otherwise required by State Statutes, revenue bonds may be issued without voter approval and only in accordance with the laws of Texas.

7.5 Other Debt Obligations

The use of other debt obligations, permitted by law, including but not limited to public property finance act contractual obligations, pension obligations, tax notes, notes payable, and lease purchase obligations, will be reviewed on a case-by-case basis. The findings in 7.2 and 7.3 above will be considered for the use of these obligations.

7.6 Use of Derivatives

The use of derivatives is prohibited.

8.0 CREDIT ENHANCEMENTS

Credit enhancements are mechanisms which guarantee principal and interest payments. They include bond insurance and a line or letter of credit. A credit enhancement, while costly, will usually bring a lower interest rate on debt and higher rating from the rating agencies, thus lowering overall costs.

During debt issuance planning, the Financial Advisor will advise the City whether or not a credit enhancement is cost effective under the circumstances and what type of credit enhancement, if any, should be purchased. In a negotiated sale, bids will be taken during the period prior to the pricing of the sale. In a competitive sale, bond insurance may be provided by the purchaser if the issue qualifies for bond insurance.

9.0 DEBT APPROVAL PROCEDURES

9.1 Approval by the City Manager

All City financing transactions shall be prepared by the Chief Financial Officer for approval by the City Manager, prior to submittal to the Audit Committee.

All financing transactions for City subsidiary corporations and agencies shall be prepared and presented jointly to the City Manager and Chief Financial Officer and the Executive Director of the corporation and agency. The debt transactions must be approved by the City Manager prior to submittal to the corporation or agency board for approval and forwarding to the City Audit Committee.

9.2 Review by Audit Committee

All proposed long-term financing transactions for capital improvements and assets shall be reviewed by the City's Audit Committee. For matters related to review by the Audit Committee, "long-term financing" means financing that constitutes an obligation beyond one fiscal year.

a. The City Council should not authorize the issuance of any long-term financing until the Audit Committee completes its review of the proposed transaction and submits its recommendation to the City Council.
b. The Chief Financial Officer, City Manager and City Attorney should review proposed transactions submitted to the Audit Committee prior to submission.
c. Upon approval by the Audit Committee, the proposed transaction shall then be presented to the full City Council.
d. In the absence of a quorum of the Audit Committee, the Chief Finance Officer has the authority to present the proposed transaction to the City Council without prior review of the Audit Committee.
e. The City Council shall comply with all public hearing requirements applicable to the specific type of bond being approved.

10.0 METHODS OF SALE

The City will use the method of sale that results in the most cost effective, efficient debt issuance process. The City will engage the services of an independent financial advisor to assist with determining the method of sale and the selection of other financing team members.

11.0 PERMITTED INVESTMENTS

All investments of bond proceeds shall adhere to the City's Investment Policy, approved periodically by City Council. Investments shall not allow security types or credit standards less than those of the City's Investment Policy and the term of the investments must not be in excess of the term of the bonds.

12.0 REFUNDING OF DEBT

The City will engage the services of an independent financial advisor when considering potential saving from refunding of debt. From time to time, the City may also issue refunding debt for purposes of restructuring debt, changing covenants, and/or changing the repayment source of the bonds. Such purpose should be specifically recognized by City Council.

12.1 Advance refunding and forward delivery refunding transactions for savings should be considered when the net present value savings as a percentage of the par amount of refunded bonds is at least 3%.

12.2 Current refunding transactions issued for savings should be considered when the net present value savings as a percentage of the par amount of refunded bonds is at least 2%.

13.0 DEBT SERVICE TAX RATE

Council shall adopt the necessary debt service tax rate in order to meet debt service principal, interest and fee payments, net of transfers, for each particular fiscal/budget year, subject to any reserve availability. State statutes limit the amount of general obligation debt a governmental entity may issue to $2.50 per $100 valuation of its total assessed valuation. Additionally, the City's charter allows a tax rate limit not exceeding $1.65 per $100 valuation for any one year.

14.0 DEBT LIMITS

Direct debt outstanding includes bonded debt principal, capital leases and notes payable that are tax-supported and self-supported. For tax-supported debt, the following debt limits apply.

14.1 The total principal amount outstanding of tax-supported debt of the City shall not exceed three percent of the total assessed valuation of the City's tax rolls.

14.2 The total tax-supported debt payment of the City shall not exceed 17.5 percent of non-capital expenditures for Governmental Funds.

For self-supported debt, such as enterprise fund (utilities) debt, the debt limit is based on the debt coverage ratio. Debt coverage ratio refers to the number of times the current combined debt service requirements or payments are covered by the current operating revenues net of on-going operating expenses.

14.3 The City will maintain a minimum debt service coverage ratio of 1.15 times unless otherwise dictated by bond covenants.

14.4 Conduit debt limitations will be determined on a case-by-case basis. Creditworthiness of the borrower, credit rating and purpose for the debt are factors that will be considered.

15.0 MATURITY LEVELS/STRUCTURE

15.1 The term of debt shall not exceed the useful life of the capital asset being financed, and in no case shall exceed twenty-five (25) years. The average life (weighted) of each general obligation bond series shall be kept at or below 12.5 years.

15.2 Debt structure should approximate level debt service unless operational matters dictate otherwise. Market factors, such as the effects of tax-exempt designations, the cost of early redemption options and the like, will be given consideration during the structuring of long-term instruments.

16.0 MANAGEMENT OF DEBT SERVICE FUND

16.1 Interest earnings from general obligation bonds and certificates of obligation shall be used solely to fund direct or related capital expenditures or to service current and future debt payments. Interest earnings will be allocated in accordance with the City's Investment Policy.

16.2 Debt service reserves for tax-supported debt shall maintain between a two-month (minimum) and three-month (maximum) reserve of the current year total debt service expenditure budget (i.e. Total Annual Debt Service Budget/12 months x 3 months). If this reserve balance is below minimum or exceeds maximum during any given fiscal year, a plan should be adopted to increase or reduce the size of the reserves as quickly as possible without causing large variances in the ad valorem property tax rate.

16.3 Debt service reserves for revenue bonds shall be maintained at levels required by controlling bond ordinances.

16.4 The City shall comply with all Internal Revenue Service rules and regulations including but not limited to arbitrage.

17.0 RATINGS

The City's goal is to achieve and maintain the highest possible bond ratings that result from managing the City to best meet the needs and goals of the citizens.

17.1 The City will strive to maintain good relationships with bond rating agencies as well as disclose financial reports and information to these agencies and to the public.

17.2 The City will obtain a rating from at least one nationally recognized bond-rating agency on all issues being sold on the public market.

17.3 Timely disclosure of annual financial information including other information will be provided to the rating agencies. The Comprehensive Annual Financial Report (CAFR) will be prepared by management and attested to by an external audit firm. The rating agencies will also be notified in advance when the City begins preparation for a debt issuance, and the Chief Financial Officer will be responsible for coordination and interaction during the bond rating process and periodic rating reviews.

17.4 Timely disclosure of any pertinent financial information that could potentially affect the City's credit rating will also be presented to the rating agencies, required information repositories, bond insurance companies insuring City of Brenham debt, and commercial banks providing liquidity support.

18.0 FINANCIAL ADVISOR

The City will use a financial advisor to assist the City in bond issuance and debt management oversight. The City's financial advisor must be a firm that is independent of banking, underwriting, or other interests to assure that the selected financial advisor can effectively represent the City in negotiations with bankers, underwriters, and other service providers needed for the issuance of debt.

19.0 DEBT MANAGEMENT POLICY REVIEW

Compliance with the Debt Management Policy shall be performed annually by the Controller and the Strategic Budget Officer and any modifications reviewed by the Audit Committee and adopted by City Council.