



Item No. 8 Town of Atherton

CITY COUNCIL STAFF REPORT – CONSENT AGENDA

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: ROBERT BARRON III, FINANCE DIRECTOR

DATE: APRIL 15, 2020

SUBJECT: ADOPTION OF A RESOLUTION OF THE CITY COUNCIL OF THE TOWN OF ATHERTON FOR A DEBT POLICY RELATED TO THE ISSUANCE OF DEBT

RECOMMENDATION

Adopt a resolution for a Town Debt Policy related to the Issuance of Debt for the Town of Atherton.

BACKGROUND

At its November 20, 2019 Council meeting, the City Council reviewed and discussed the cash flow planning and projection for the Town Center. Direction was given to proceed with Certificates of Participation Bond financing for cash flow shortfall purposes of the project. As part of any financing, municipalities are required to maintain debt policies. During this meeting staff also presented a Drafty Debt Policy for review. Staff advised the Council that based on the updated assumptions and projected drawdown payment schedule, staff with the assistance of Urban Futures, projects a need for a minimum \$7 to \$8 million in cash flow funding. An exact amount would be determined at the time of issuance of the COP's draws closer.

At the March 4 Study Session, staff discussed that the financing process began and provided the financing schedule for the Town of Atherton 2020 COP's. As discussed, it was estimated that the closing and sale of financing would proceed in early May 2020. During the meeting it was discussed that in the next couple of months staff will return with a Signature Authority Ordinance, a Debt Management Policy and Disclosure Documents for adoption. Further items will need to be approved to include an authorizing resolution, site lease, lease agreement, and trust agreement. It was also discussed and agreed that once financing documents were approved, the actual issuance (sale) of the COP's would be made in early May or the latest by mid-June. The decision to initiate the sale would be made by the staff and the Ad-hoc Committee of Mayor, Vice Mayor and the Chair of the Finance Committee.

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ANALYSIS

Debt Management Policy

As the Town initiates financing, the City Council must adopt a Debt Management Policy. The Policy is a mandate for all municipalities that initiate financing. There were no major changes during the initial review of the Draft Debt Policy, just mainly discussion and clarification.

The Policy must comply with applicable State law related to the management of debt. The attached Policy is written to be compliant with those laws. A reminder that a Debt Policy governs all or any debt of the Town and is not specific to the issuance of a COP for the Town Center.

The Policy covers purposes of which debt may be issued, types of debt, relationship of debt to Capital Improvement programming, planning goals and objectives. There is nothing in the Policy that prevents future City Councils from paying debt off earlier or prevents Councils from holding bonds to maturity. Early pay down of debt is determined by the specific bond or debt documents and not the Debt Policy. One City Council cannot bind the processes of a future City Council via the Debt Policy. During discussions of Town financing, the current Council has directed staff to seek a 10-year term with a 5-year call option to pay off the COP's. The bond documents will provide those options.

The Debt Policy Resolution, while not binding, lays out the intent of the City Council in adoption of debt. These could include an intent to retire debt as early as is feasible or to use the proceeds of a specific debt issuance for a specific purpose (this would also be in the bond documents). Included within the presented resolution this evening to adopt the Town of Atherton Debt Policy, is the following:

“The City Council hereby declares its intent, without any obligation to do so and subject to final approval of the City Council, to prepay its obligations with respect to such lease financing at the earliest optional prepayment date permissible under the related financing agreements”

Staff recommends the adoption of the attached Debt Management Policy and Resolution. The adoption of the Debt Policy continues the Town's trajectory to meet the financing schedule for COP's. Next month, staff will return with the approval of Town Financing documents and authorization of the sale of bonds.

POLICY ISSUES

The Town does not have a history of debt. However, most agencies will enter into short- or long-term debt for large structural capital projects that exceed their budget constraints. Typical facilities financed via COPs include administration buildings, water and sewer systems, public safety facilities, schools, parking garages, etc. While the Town is fortunate to have cash on hand, donations, and projected revenues to complete its most significant capital infrastructure project, that cash will not be fully realized until the project is complete. This creates a cash flow burden on

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the Town's General Fund and triggers the need for a COP.

A part of this financing process it is a requirement that the Town also have a Debt Management Policy that underlines guidelines and purposes for debt. The Council will be adopting a Debt Policy as it approaches COP financing for the Town Center Project. The objectives of any debt issuance must be well thought out and fit within the goals of the public agency. While the California Constitution provides that COPs may be issued by a public entity; do not constitute indebtedness under the California Constitutional debt limit; and do not trigger voter approval, thoughtful deliberation by the Council is encouraged.

FISCAL IMPACT

None.

PUBLIC NOTICE

Public notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting in print and electronically. Information about the project is also disseminated via the Town's electronic News Flash and Atherton Online. There are approximately 1,200 subscribers to the Town's electronic News Flash publications. Subscribers include residents as well as stakeholders – to include, but be not limited to, media outlets, school districts, Menlo Park Fire District, service providers (water, power, and sewer), and regional elected officials. The Town maintains an active and up to date Project Website at <http://ca-atherton.civicplus.com/index.aspx?NID=290>.

ATTACHMENTS

Attachment 1: Resolution Adopting Town Debt Management Policy

Attachment 2: Debt Management Policy

RESOLUTION NO. 20-__

**A RESOLUTION OF THE CITY COUNCIL OF THE TOWN OF ATHERTON
ADOPTING A DEBT MANAGEMENT POLICY**

WHEREAS, pursuant to Senate Bill 1029 (“SB 1029”), which was signed by the California Governor on September 12, 2016, California public agencies that issue debt must adopt debt management policies that meet certain criteria; and

WHEREAS, in response to SB 1029 and in order to adhere to sound financial management practices, the Town of Atherton wishes to adopt and maintain a debt management policy; and

WHEREAS, there has been presented to this meeting a proposed form of debt management policy (the “Debt Policy”); and

WHEREAS, subject to City Council approval, the Town anticipates entering into a lease financing in the future to finance a portion of the cost to construct and acquire the Town Center Project; and

WHEREAS, the City Council hereby declares its intent, without any obligation to do so and subject to final approval of the City Council, to prepay its obligations with respect to such lease financing at the earliest optional prepayment date permissible under the related financing agreements; and

NOW, THEREFORE, BE IT RESOLVED by the City Council of the Town of Atherton as follows:

Section 1. The City Council hereby approves and adopts the Debt Policy presented to the meeting at which this resolution is adopted.

Section 2. This resolution shall take effect from and after the date of its passage and adoption.

PASSED, APPROVED AND ADOPTED at a regular meeting of the City Council of the Town of Atherton on 15th day of April 2020, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Rick DeGolia, Mayor

ATTEST:

Anthony Suber, City Clerk

DEBT MANAGEMENT POLICY

This Debt Management Policy (the “Debt Policy”) of the Town of Atherton (the “Town”) was approved by the Town’s City Council on _____, 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 Town. Any approval of debt by the City Council that is not consistent with this Debt Policy shall constitute a waiver of this Debt Policy.

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 Town.

The Town hereby recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the Town’s sound financial position.
- Ensure the Town has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the Town’s credit worthiness. Ensure that all debt is structured in order to protect both current and future taxpayers, ratepayers and constituents of the Town.
- Ensure that the Town’s debt is consistent with the Town’s planning goals and objectives and capital improvement program or budgets, 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 Town.

(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 Town 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.

(c) The Town 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 Town estimates that sufficient revenues will be available to service the debt through its maturity.
- The Town 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 Town'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 Town may undertake lease-purchase financing for equipment.

(iii) Financings on Behalf of Other Entities. The Town 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 the Town. In such cases, the Town 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 loans, bonds, notes, certificates of participation, financing leases, or other financing obligations, but the use of such term in this Debt Policy shall be solely for convenience and shall not be interpreted to characterize any such obligation as an indebtedness or debt within the meaning of any statutory or constitutional debt limitation where the substance and terms of the obligation comport with exceptions thereto.

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 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
- conduit financings, such as financings for affordable rental housing and qualified 501(c)3 organizations
- state or federal loans, including Revolving Fund loans
- loans and lines of credit with banks and other financial institutions
- refunding bonds, notes, loans and other obligations

The Town 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 Town makes a specific determination as to why a variable rate issue would be beneficial to the Town in a specific circumstance.

C. Relationship of Debt to Capital Improvement Program and Budget

The Town is committed to long-term capital planning. The Town intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the Town's capital budget and the capital improvement plan.

The Town 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 Town shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

The Town 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 Town's public purposes.

The Town shall seek to avoid the use of debt to fund infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.

The Town 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 Town is committed to long-term financial planning, maintaining appropriate reserve levels and employing prudent practices in governance, management and budget

administration. The Town intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the Town's annual operations budget.

It is a policy goal of the Town 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 Town 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 Town to do so either for the purpose of realizing debt service savings or for the purpose of restructuring debt in a manner which is in the best financial interests of the Town. Any refinancing of debt for the purpose of realizing debt service savings shall achieve a minimum net present value debt service savings equal to or greater than 3.0% of the refunded principal amount or such lesser amount as shall be designated in the resolution adopted by the City Council which authorizes the refunding proceedings.

E. Internal Control Procedures

When issuing debt, in addition to complying with the terms of this Debt Policy, the Town shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

The Town will periodically review the requirements of and will remain in compliance with the following:

- any continuing disclosure undertakings under SEC Rule 15c2-12,
- any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues, and
- the Town's investment policies as they relate to the investment of bond proceeds.

It is the policy of the Town to ensure that proceeds of debt are spent only on lawful and intended uses. Whenever reasonably possible, proceeds of debt will be held by a third-party trustee and the Town will submit written requisitions for such proceeds. The Town will submit a requisition only after obtaining the signature of the City Manager. In those cases where it is not reasonably possible for the proceeds of debt to be held by a third-party trustee, the person performing the function of chief financial officer of the Town shall retain records of all expenditures of proceeds through the final payment date for the debt.

F. Adoption By Related Local Agency

This Debt Policy may be adopted, and shall be applicable to, any other local agency for which the City Council acts as the governing board thereof (each, a "**Local Agency**"). The adoption of this Debt Policy by the Local Agency shall be evidenced by a resolution adopted by the City Council, in its capacity as the governing board of such Local

Agency, adopting this Debt Policy and specifying the officer(s) authorized to submit the requisitions, and required to retain the records, described in Section E above on behalf of such Local Agency.