10-c

ACTION SHEET
CITY COUNCIL COMMITTEE MEETING OF 06/10/15
ITEM FROM FINANCE COMMITTEE MEETING OF 06/01/15

ISSUE:

8. Request for Approval of City of Santa Fe Annual Debt Management and Post Issuance Policy. (Helene Hausman)

FINANCE COMMITTEE ACTION:

Approved as Discussion Item.

FUNDING SOURCE:

SPECIAL CONDITIONS OR AMENDMENTS

Amend language before City Council.

STAFF FOLLOW-UP:

VOTE	FOR	AGAINST	ABSTAIN
COUNCILOR TRUJILLO	X		
COUNCILOR RIVERA	X		
COUNCILOR LINDELL	X		
COUNCILOR MAESTAS	X		
CHAIRPERSON DOMINGUEZ			

4-13-15

City of Santa Fe, New Mexico

memo

TO: Council

FROM: Helene R. Hausman, Cash Management & Investment Officer HJ

VIA: Oscar S. Rodriguez, Finance Director

DATE: June 10, 2015

RE: Annual Approval of the City of Santa Fe Debt Management and Post Issuance Policy

BACKGROUND AND SUMMARY:

At Finance Committee on June 1, 2015 Councilor Maestas requested two clarifications: (1) that use of the term "useful life" be more clearly relevant to our efforts, and (2) that it be made clearer that the policy applied to all forms of debt and not just bonds.

ITEM AND ISSUE:

The following sections have been amended to accommodate these changes:

Item (1):
Original Section 3.0-a: Bonds shall be paid back within a period not to exceed, and preferably sooner than, the expected useful life of the capital project.

Revised Section 3.0-a: Debt shall be paid back within a period not to exceed, and preferably sooner than, the useful life of the capital asset as anticipated by the City.

Item (2):
Original Section 5.2: Bonds are generally issued such that

Revised Section 5.2: Debt is generally issued such that

While Section 2.0 Scope does state that "This policy applies to all debt instruments issued by the City regardless of funding source", these changes will make the policy clearer as it is read and implemented.

REQUESTED ACTION:

Please review and approval the Debt Management and Post Issuance Policy for this annual review period.

Attachment:

Revised Debt Management and Post Issuance Policy

CITY OF SANTA FE
FINANCE DEPARTMENT MANUAL

Originator: Finance Director

DEBT MANAGEMENT & POST ISSUANCE POLICY	Policy Number	# Pages
	2	12
	Effective Date	Revision Date
	12-11-2013	06-10-2015

The City of Santa Fe ("the City") recognizes that the foundation of any well-managed debt program is a comprehensive debt management and post issuance policy outlining the parameters for issuing new debt and managing the existing debt portfolio, identifying the types and amounts of permissible debt, providing guidance to decision makers regarding the purposes for which debt may be issued, and verifying that the IRS regulations regarding post issuance compliance are met to preserve the tax-exempt status of the City's bonds.

I. DEBT MANAGEMENT POLICY

1.0 POLICY

Adherence to a debt management policy helps ensure that the City maintains the current or an improved bond rating in order to minimize borrowing costs and preserve access to credit.

The City's Debt Management Policy ("the Debt Policy") provides guidance for staff to:

a. Ensure high quality debt management decisions;
b. Ensure support for debt issuances both internally and externally;
c. Impose order and discipline in the debt issuance process;
d. Promote consistency and continuity in the decision making process;
e. Ensure that the debt management decisions are viewed positively by rating agencies, investment community and taxpayers; and
f. Demonstrate a commitment to long-term financial planning objectives.

2.0 SCOPE

This Policy applies to all debt instruments issued by the City regardless of the funding source. Funding sources can be derived from, and debt secured by, gross receipt tax, property tax, lodger's tax, enterprise fund revenues, or any other identifiable source of revenue that may be pledged for indebtedness.

3.0 OBJECTIVES

The primary objective of this Policy is to ensure that the City establishes and maintains a solid position with respect to its debt service and ~~bond~~ proceed funds, and that proceeds from long-term debt will not be used for current operations but rather for capital improvements, and related expenses, and other long-term assets in accordance with State law and City ordinances.

Other objectives include:

a. Debt shall be paid back within a period not to exceed, and preferably sooner than, the useful life of the capital asset as anticipated by the City;
b. Decisions shall be made based on a number of factors and will be evaluated against long-term goals rather than a short-term fix; and
c. Debt service and bond proceed funds shall be managed and invested in accordance with all federal, state and local laws and in conjunction with the Tax Compliance Certificate of each bond issue to assure availability to cover project costs and debt service payments when due.

4.0 IMPLEMENTATION

The Policy requires:

a. Payment of principal and interest on all outstanding debt in full and timely manner;
b. Incurrence of debt for those purposes permissible under State law and the home-rule charter of the City;
c. Development, approval and financing of capital improvements in accordance with City Code and the capital improvement budgeting process;
d. Structuring of principal and interest retirement schedules to: (1) achieve a low borrowing cost for the City, (2) accommodate the debt service payments of existing debt, and (3) respond to perceptions of market demand. Shorter maturities shall always be encouraged to demonstrate to rating agencies that debt is being retired at a sufficiently rapid pace;
e. Selection of a method of sale that shall maximize the financial benefit to the City;
f. Effective communication with bond rating agencies to ensure complete and clear understanding of the credit worthiness of the City; and
g. Full, complete, and accurate disclosure of financial conditions and operating results in every financial report, bond prospectus and Annual Information Statement ("AIS"). All reports shall conform to guidelines issued by the Government Finance Officers Association ("GFOA"), Securities and Exchange Commission ("SEC"), and the Internal Revenue Service (IRS) to meet the disclosure needs of rating agencies, underwriters, investors, and taxpayers.

5.0 STRUCTURE OF DEBT

Debt service shall be structured to the greatest extent possible to:

a. Match projected cash flows and pledged revenues;
b. Minimize the impact of future tax levies;
c. Maintain a consistent and as rapid as feasible payment of principal;
d. Maintain a level overall annual debt service payment structure; and

e. Equal the lesser of the useful life of the asset being financed or the maximum legal maturity for the obligations issued to finance the acquisition and construction of the asset.

5.1 Fixed Interest versus Variable Interest

The City generally issues fixed rate bonds primarily to protect the City against interest rate risk. The City has the option to issue variable rate bonds if market conditions warrant and Council approves it.

5.2 Other Considerations

Debt is generally issued such that:

a. The average life is 20 years or less for general obligation bonds and revenue bonds, the City may choose a longer term for revenue bonds for projects whose lives are greater than 20 years.
b. Debt service 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.
c. Call provisions for bond issues shall be made as short as possible consistent with the lowest interest 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.

6.0 FINANCING ALTERNATIVES

The City shall develop a level of cash and debt funded capital improvement projects that provide the citizens with the desired amount of City services at the lowest cost. City staff shall assess all financial alternatives for funding capital improvements prior to issuing debt.

6.1 Pay-As-You-Go Financing

Pay-as-you-go financing should be considered before issuing any debt. Pay-as-you go financing may include: intergovernmental grants from federal, state and other sources, current revenues or fund balances, private sector contributions, and public/private partnerships. Once the City has determined that pay-as-you-go is not a feasible or sufficient financing option, the City may use bonds, loans, or other debt financing sources as deemed appropriate by City staff and approved by Council.

6.2 General Obligation Bonds

General obligation bonds may be used if the following criteria are met:

a. The size of the issuance is $2 million or above;
b. The G.O. bond funds are used for new and expanded facilities, major repair or renovations to existing facilities, or quality-of-life projects;
c. The useful life of the capital asset acquired/constructed/improved will be ten (10) years or more, or the funds will extend the useful life of an asset for more than ten (10) years; and
d. Voter authorization is given through approval in a bond election in accordance with State law and City ordinances.

6.2.1 The total dollar amount of G.O. bond election propositions recommended to the voters shall not exceed the City's estimated ability to issue said bonds within a normal four (4) year period.

6.2.2 Reimbursement resolutions, if required for funds to be advanced prior to issuance of General Obligation bonds, may be used for projects funded through General Obligation bonds.

6.2.3 G.O. bonds may be used to fund quality-of-life projects that include, but are not limited to, the City's parks, libraries, non-public safety facilities, internet and entertainment, sports and amusement-type facilities.

6.3 Capital Improvement Project Bonds ("CIP")
Capital improvement project bonds shall be secured and payable from Gross Receipts Tax (GRT) revenues.

6.3.1 The City historically has funded the majority of capital projects through CIP Bonds including:

a. Capital asset acquisitions such as heavy equipment, vehicles, IT equipment;
b. Rehabilitation, renovation, improvement and/or extension of the useful life of existing facilities;
c. Plan, design, build and construct new facilities;
d. Infrastructure projects such as street and drainage work, street resurfacing, unpaved rights-of-way, ADA retrofitting and rehabilitation projects, and street lighting;
e. Emergency rehabilitation of City facilities such as storm water drainage; or
f. Any other service or project that concerns the health, safety and welfare of the citizens.

6.3.2 C I P Bonds or other long-term debt may be considered when:

a. The need for the capital project is urgent and immediate;
b. The capital project is necessary to prevent an economic loss to the City;
c. The source of pledged revenue to pay off the CIP bond is specific and can be expected to cover the additional debt;
d. The expected debt is the most cost-effective financing option available;
e. The average maturity of the debt does not exceed the projected life of the project; or
f. The project has a value of at least five thousand dollars and a life of at least four years.

6.3.3 Reimbursement resolutions, if required for funds to be advanced prior to issuance of CIP Bonds, may be used for projects funded through CIP Bonds.

6.4 Revenue Bonds -- Enterprise Funds

Revenue Bonds for enterprise system capital improvement programs will be limited to those projects with the capability to support the debt either though their own revenue or another pledged source, other than ad valorem taxes, and which meet the same criteria as outlined above.

7.0 METHODS OF SALE

The City's debt obligations may be sold by competitive or negotiated sale methods. The selected method of sale depends upon the option which is expected to result in the lowest cost and most favorable terms to the City given the financial structure used, market conditions, and prior experience. When considering the method of sale, the City may consider the following issues:

a. Financial conditions;
b. Market conditions;
c. Transaction-specific conditions;
d. City-related conditions;
e. Risks associated with each method;
f. Complexity of the Issue – Municipal securities with complex security features require greater marketing and buyer education efforts on the part of the underwriter, to improve the investors' willingness to purchase;
g. Volatility of Bond Yields – If municipal markets are subject to abrupt changes in interest rates, there may be a need to have some flexibility in the timing of the sale to take advantage of positive market changes or to delay a sale in the face of negative market changes;
h. Familiarity of Underwriters with the City's Credit Quality – If underwriters are familiar with the City's credit quality, a lower True Interest Cost (TIC) may be achieved. Awareness of the credit quality of the City has a direct impact on the TIC an underwriter will bid on an issue. Therefore, where additional information in the form of presale marketing benefits the interest rate, a negotiated sale may be recommended. The City strives to maintain an excellent bond rating. As a result, the Municipal Bond Market is generally familiar with the City's credit quality; and
i. Size of the Issue - The City may choose to offer sizable issues as negotiated sales so that pre-marketing and buyer education efforts may be done to more effectively promote the bond sale.

7.1 Competitive Sale

In a competitive sale, bonds are awarded in a sealed bid sale to an underwriter or syndicate of underwriters that provides the lowest TIC bid. TIC is defined as the rate, which will discount the aggregate amount of debt service payable over the life of the bond issue to its present value on the date of delivery. It is customary for bids to be submitted electronically through a secure website.

7.2 Negotiated Sale

In a negotiated sale, the City chooses an underwriter or underwriting syndicate that is interested in reoffering a particular series of bonds to investors. The terms of the sale, including the size of the underwriter's discount, date of sale, and other factors, are negotiated between the two parties. Although the method of sale is termed negotiated, individual components of the sale may be competitively bid. The components are subject to a market analysis and reviewed prior to recommendation by staff. Negotiated sales are more advantageous when flexibility in the sale date is needed or when less conventional bond structures are being sold. Negotiated sales are also often used when the issue is particularly large or if the sale of the debt issuance would be perceived to be more successful with pre-marketing efforts.

7.3 Private Placement

A private placement is a negotiated sale of debt securities to a limited number of selected investors including financial institutions or government agencies or authorities. The City may engage a placement agent to identify likely investors if deemed necessary. A private placement may be beneficial when the issue size is small, when the security of the bonds is somewhat weaker, or when a governmental lending agency or authority can provide beneficial interest rates or terms compared to financing in the public market.

8.0 REFUNDING OF DEBT

All forms of refunding debt shall be approved by Council in accordance with City ordinances and the Department of Finance and Administration in accordance with State law.

8.1 Advance Refunding

Advanced refunding and forward delivery refunding transactions for savings may be considered when the net present value savings as a percentage of the par amount of refunded bonds is approximately three percent.

8.2 Current Refunding

Current refunding transactions issued for savings maybe considered when the net present value savings as a percentage of the par amount of refunded bonds is approximately three percent.

8.3 Refunding for Debt Restructuring

From time to time, the City may also issue refunding debt for other purposes, rather than net present value savings, such as restructuring debt, changing covenants, or changing the repayment source of the bonds.

9.0 DEBT LIMITS

9.1 General Obligation Bonds

The State Constitution limits the amount of outstanding general obligation bonds to four percent of the taxable value of property within the City.

10.0 MATURITY LEVELS

10.1 Revenue Debt

The term of revenue debt shall not exceed the expected useful life of the capital asset being financed and in no case shall it exceed thirty years.

10.2 General Obligation Debt

The term of general obligation debt shall not exceed the State maximum of twenty years.

11.0 MANAGEMENT OF DEBT SERVICE FUND

11.1 Interest Earnings

Interest earnings on bond and loan proceeds shall be used solely to fund direct or related capital expenditures, or to service current and future debt payments.

11.2 Debt Service Reserves – General Obligation Bonds

Debt service reserves for general obligation bonds shall not be required.

11.3 Debt Service Reserves – Revenue Bonds

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

11.4 IRS Rules and Regulations

The City shall comply with all IRS rules and regulations including, but not limited to, arbitrage.

12.0 RATINGS

Adherence to a debt management policy helps insure that the City maintains the current or an improved bond rating in order to minimize borrowing costs and preserve access to credit. Toward that end, the City will take the following steps.

12.1 Strive to maintain good relationships with bond rating agencies as well as disclose financial reports and information to these agencies and to the public.

12.2 Obtain a rating from at least one nationally recognized bond-rating agency on all issues being sold in the public market.

12.3 Make timely disclosure of annual financial information or other requested information to the rating agencies.

13.0 CONTINUING DISCLOSURE

The City provides continuing disclosure of financial and pertinent credit information relevant to the City's outstanding securities and will abide by the provisions of SEC Rule 15c2-12 concerning primary and secondary market disclosure. City staff shall submit a Continuing Disclosure filing prior to April 1st of each year and at other such times as may be indicated by material changes in the City's financial situation.

14.0 SELECTION OF FINANCIAL ADVISOR

14.1 Selection

In order to obtain the best price, achieve a high level of quality service, promote fairness and objectivity, and allow the City to compare financial advisors, the City will solicit proposals, as defined in the City Purchasing Manual, in accordance with State law and City ordinances, to select a financial advisor at least once every four years. City staff shall review the resulting professional services agreement periodically to ensure that the selected financial advisor is performing at a satisfactory level.

14.2 Scope of Work

The financial advisor selected shall provide financial advisory services related to the authorization and issuance of debt instruments, as well as debt management planning services as requested by the City.

14.3 Proposals

Any proposals submitted shall address the items defined in the Purchasing Manual, including, at a minimum, a clear and concise description of the scope of work, the length of the contract, whether joint proposals with other firms are acceptable, objective selection criteria for evaluation of proposals, and all fee structures in a standard and clear format. In addition, such proposals shall include the firms' qualifications and experience, as well as the qualifications and experience of the particular individuals to be assigned to the City.

14.4 Selection of Underwriters

In order to obtain the best price, achieve a high level of quality service, promote fairness and objectivity, and allow the City to compare underwriters, the City will work jointly with the selected Financial Advisor to select underwriters for each bond issue.

15.0 SELECTION OF BOND COUNSEL

15.1 Request for Qualifications

The City's Purchasing Manual currently exempts the procurement of attorneys from the competitive RFP process. However, in order to obtain the best price, achieve a high level of quality service, promote fairness and objectivity, and allow the City to compare bond counsel, the City reserves the right to conduct a Request for Qualifications (RFQ) to select the bond counsel for debt issues while also recognizing the value in maintaining a relationship with bond counsel due to the complexity of issues and laws related in issuing municipal bonds.

15.2 Scope of Work

Bond Counsel shall, at a minimum:

a. Possess comprehensive municipal debt knowledge and experience, as well as extensive knowledge of State municipal finance law.
b. Be responsible for providing an opinion in two specific areas: whether the securities are valid and legally binding obligations of the issuer, and whether the interest on the bonds is exempt from federal taxation.
c. Prepare all bond documents necessary to execute the bond issuance.
d. Be responsible for coordinating with the City Attorney's office, the City Clerk's office, and the City's financial advisor to ensure that all tasks associated with the bond issuance are completed within prescribed timeframes.
e. To the extent required by State law, be responsible for coordinating with the New Mexico Office of the Attorney General and the New Mexico Department

of Finance and Administration on matters relating to the approval of City obligations.

II. POST ISSUANCE POLICY

1.0 POLICY

It is the policy of the City of Santa Fe (the "City") to actively pursue the following Post-Issuance Tax Compliance Procedures (the "Procedures") to ensure that all applicable post-issuance requirements of federal income tax law are met to preserve the tax-exempt status of the City's bonds.

2.0 GENERAL PROCEDURES

2.1 The Tax Compliance Certificate

a. The Tax Compliance Certificate ("Tax Certificate") issued for each bond issue describing the requirements and provisions of the Code must be followed in order to maintain the tax exempt status of the interest on such bonds.
b. The Tax Certificate will contain the reasonable expectations of the City at the time of issuance of the related bonds with respect to the use of the gross proceeds of such bonds and the assets to be financed or refinanced with the proceeds thereof.

2.2 Procedures

The procedures supplement and support the covenants and representations made by the City in the Tax Certificate related to specific issues of tax exempt bonds. In order to comply with the covenants and representations set forth in the bond documents and in the Tax Certificate the City will monitor all City bond issues using the post issuance compliance requirements.

3.0 DESIGNATION OF RESPONSIBLE PERSON

The City Finance Director and City Cash Management and Investment Officer shall maintain an inventory of bonds and assets financed which contains the pertinent data to satisfy the City's monitoring responsibilities. Any transfer, sale or other disposition of bond-financed assets shall be reviewed and approved by the City Manager or City Council, in accordance with State law and City ordinances.

4.0 EXTERNAL ADVISORS/DOCUMENTATION

a. The City shall consult with bond counsel and other legal counsel and advisors as needed throughout the issuance process to identify requirements and to establish procedures necessary or appropriate so that the bonds will continue to qualify for tax-exempt status. Those requirements and procedures shall be documented in the Tax Certificate and/or other documents finalized at or before issuance of the bonds. Those requirements and procedures shall include future compliance with applicable arbitrage rebate requirements and all other applicable post-issuance requirements of federal tax law throughout (and in some cases beyond) the term of the bonds.

b. The City also shall consult with bond counsel and other legal counsel and advisors as needed following issuance of the bonds to ensure that all applicable post-issuance requirements in fact are met. This shall include, without limitation, consultation in connection with future long-term contracts with private parties for the use of bond-financed or refinanced assets.

c. The City shall train and employ or otherwise engage expert advisors (a "Rebate Service Provider") to assist in the calculation of the arbitrage rebate payable with respect to the investment of the bond proceeds, unless the Tax Certificate documents that arbitrage rebate will not be applicable to an issue of bonds.

d. Unless otherwise provided by the resolution or other authorizing documents relating to the bonds, unexpended bond proceeds shall be held in a segregated bond fund. The investment of bond proceeds shall be managed by the City. The City shall prepare regular, periodic statements regarding the investments and transactions involving bond proceeds.

5.0 ARBITRAGE REBATE AND YIELD

Unless the Tax Certificate documents that arbitrage rebate will not be applicable to an issue of bonds, the City shall be responsible for:

a. Engaging, by contract, the services of a Rebate Service Provider, procured in accordance with State law and City ordinances, and, prior to each rebate calculation date, delivering periodic statements concerning the investment of bond proceeds to the Rebate Service Provider.

b. Providing to the Rebate Service Provider, as may be requested, additional documents and information pertaining to the expenditure of proceeds from each bond issue being annually reviewed.

c. Monitoring the services of the Rebate Service Provider.

d. Assuring payment of the required rebate amounts, if any, no later than 60 days after each five (5) year anniversary of the issue date of the bonds, and no later than 60 days after the last bond of each issue is redeemed.

e. During the construction period of each capital project financed in whole or in part by bonds, monitoring the investment and expenditure of bond proceeds and consulting with the Rebate Service Provider to determine compliance with the applicable exceptions with any arbitrage rebate requirements.

f. Retaining copies of all arbitrage reports and account statements as described below under "Record Keeping Requirements".

6.0 USE OF BOND PROCEEDS AND BOND-FINANCED OR REFINANCED ASSETS

The City, in the Tax Certificate and/or other documents finalized at or before the issuance of the bond, shall be responsible for the following tasks:

a. Monitoring the use of bond proceeds and the use of bond-financed or refinanced assets (e.g. facilities, furnishing or equipment) throughout the term of the bonds to ensure compliance with covenants and restrictions set forth in the Tax Certificate.

b. Maintaining records identifying the capital assets or portion of capital assets that are financed or refinanced with proceeds of the bonds, including a final allocation of bond proceeds as described below under "Record Keeping Requirements".

c. Consulting with bond counsel and other legal counsel and advisors in the review of any contracts or arrangements involving private use of bond-financed or refinanced assets to ensure compliance with all covenants and restrictions set forth in the Tax Certificate.

d. Maintaining records for any contracts or arrangements involving the use of bond-financed or refinanced assets as described below under "Record Keeping Requirements".

e. Conferring, at least annually, with City personnel responsible for bond-financed or refinanced capital assets to identify and discuss any existing or planned use of bond-financed or refinanced capital assets, to ensure that those uses are consistent with all covenants and restrictions set forth in the Tax Certificate.

f. To the extent that the City discovers that any applicable tax restrictions regarding use of the bond proceeds and bond-financed or refinanced assets may have or may be violated, consulting promptly with bond counsel and other legal advisors to determine a course of action to remediate all nonqualified bonds, if such counsel advises that a remedial action is necessary.

7.0 RECORD KEEPING REQUIREMENT

The City shall be responsible for maintaining the following documents for the term of the issuance of bonds (including refunding bonds, if any) plus at least three years.

a. A copy of the bond closing transcript(s) and other relevant documentation delivered to the City at or in connection with closing of the issuance of bonds, including any elections made by the City in connection therewith.

b. A copy of all material documents relating to capital expenditures financed or refinanced by bond proceeds, including (without limitation) construction contracts, purchase orders, invoices, requisitions and payment records, draw requests for bond proceeds and evidence as to the amount and date for each draw down of bond proceeds, as well as documents relating to costs paid or reimbursed with bond proceeds and records identifying the asset or portion of assets that are financed or refinanced with bond proceeds, including a final allocation of bond proceeds.

c. A copy of all contracts and arrangements involving the use of bond-financed or refinanced assets.

d. A copy of all records of investments, investment agreements, arbitrage reports and underlying documents in connection with any investment agreements, and copies of all bidding documents, if any. [Paying agent account statements, bank statements for reserve funds, etc.]

e. The two attached forms (Attachment A - Rebate Report Review Form and Attachment B -Responsibility Matrix Forms (2)) are for use in tracking the review of arbitrage rebate reports and other responsibilities associated with post-issuance of each bond issue.

III. DEBT MANAGEMENT AND POST ISSUANCE POLICY REVIEW

This Debt Management and Post Issuance Policy shall be reviewed at least once every year by the City Council. Any modifications to this Policy, at any time, shall be approved by City Council.

IV. REVIEW AND APPROVALS

1.0 PREPARED BY: Helene R. Hausman 6/2/15
Helene R. Hausman — Date
Cash Management & Investment Officer

2.0 REVIEWED BY: [signature] 6-2-2015
Oscar S. Rodriguez — Date
Finance Director

3.0 REVIEWED BY: Kelley A. Brennan 6/3/15
Kelley A. Brennan — Date
City Attorney

4.0 APPROVED BY: ______________________
Javier M. Gonzales — Date
Mayor

5.0 ATTEST: ______________________
Yolanda Y. Vigil — Date
City Clerk

City of Santa Fe, New Mexico
memo

TO: Finance Committee

FROM: Helene R. Hausman, Cash Management & Investment Officer HH

VIA: Oscar S. Rodriguez, Finance Director

DATE: May 4, 2015

RE: Annual Approval of the City of Santa Fe Debt Management and Post Issuance Policy

BACKGROUND AND SUMMARY:
Council approved the first Debt Management and Post Issuance Policy on December 13, 2013 with the stated review period of every two years. This was felt to be in line with how the City generally issues bonds. Oscar Rodriguez has requested that it be done every year during the time we address the budget.

ITEM AND ISSUE:
One change is suggested under this review to change the review period from every two years to every year, as underlined below.

III. DEBT MANAGEMENT AND POST ISSUANCE POLICY REVIEW

This Debt Management and Post Issuance Policy shall be reviewed at least once every year by the City Council. Any modifications to this Policy, at any time, shall be approved by City Council.

REQUESTED ACTION:
Please review and approval the Debt Management and Post Issuance Policy for this annual review period

Attachment:
Revised Debt Management and Post Issuance Policy

SS001.PM5 - 7/95

CITY OF SANTA FE
FINANCE DEPARTMENT MANUAL

Originator: Finance Director

DEBT MANAGEMENT & POST ISSUANCE POLICY	Policy Number	# Pages
	2	12
	Effective Date	Revision Date
	12-11-2013	06-10-2015

The City of Santa Fe ("the City") recognizes that the foundation of any well-managed debt program is a comprehensive debt management and post issuance policy outlining the parameters for issuing new debt and managing the existing debt portfolio, identifying the types and amounts of permissible debt, providing guidance to decision makers regarding the purposes for which debt may be issued, and verifying that the IRS regulations regarding post issuance compliance are met to preserve the tax-exempt status of the City's bonds.

I. DEBT MANAGEMENT POLICY

1.0 POLICY

Adherence to a debt management policy helps ensure that the City maintains the current or an improved bond rating in order to minimize borrowing costs and preserve access to credit.

The City's Debt Management Policy ("the Debt Policy") provides guidance for staff to:

a. Ensure high quality debt management decisions;
b. Ensure support for debt issuances both internally and externally;
c. Impose order and discipline in the debt issuance process;
d. Promote consistency and continuity in the decision making process;
e. Ensure that the debt management decisions are viewed positively by rating agencies, investment community and taxpayers; and
f. Demonstrate a commitment to long-term financial planning objectives.

2.0 SCOPE

This Policy applies to all debt instruments issued by the City regardless of the funding source. Funding sources can be derived from, and debt secured by, gross receipt tax, property tax, lodger's tax, enterprise fund revenues, or any other identifiable source of revenue that may be pledged for indebtedness.

3.0 OBJECTIVES

The primary objective of this Policy is to ensure that the City establishes and maintains a solid position with respect to its debt service and bond proceed funds, and that proceeds from long-term debt will not be used for current operations but rather for capital improvements, and related expenses, and other long-term assets in accordance with State law and City ordinances.

Other objectives include:

a. Bonds shall be paid back within a period not to exceed, and preferably sooner than, the expected useful life of the capital project;
b. Decisions shall be made based on a number of factors and will be evaluated against long-term goals rather than a short-term fix; and
c. Debt service and bond proceed funds shall be managed and invested in accordance with all federal, state and local laws and in conjunction with the Tax Compliance Certificate of each bond issue to assure availability to cover project costs and debt service payments when due.

4.0 IMPLEMENTATION

The Policy requires:

a. Payment of principal and interest on all outstanding debt in full and timely manner;
b. Incurrence of debt for those purposes permissible under State law and the home-rule charter of the City;
c. Development, approval and financing of capital improvements in accordance with City Code and the capital improvement budgeting process;
d. Structuring of principal and interest retirement schedules to: (1) achieve a low borrowing cost for the City, (2) accommodate the debt service payments of existing debt, and (3) respond to perceptions of market demand. Shorter maturities shall always be encouraged to demonstrate to rating agencies that debt is being retired at a sufficiently rapid pace;
e. Selection of a method of sale that shall maximize the financial benefit to the City;
f. Effective communication with bond rating agencies to ensure complete and clear understanding of the credit worthiness of the City; and
g. Full, complete, and accurate disclosure of financial conditions and operating results in every financial report, bond prospectus and Annual Information Statement ("AIS"). All reports shall conform to guidelines issued by the Government Finance Officers Association ("GFOA"), Securities and Exchange Commission ("SEC"), and the Internal Revenue Service (IRS) to meet the disclosure needs of rating agencies, underwriters, investors, and taxpayers.

5.0 STRUCTURE OF DEBT

Debt service shall be structured to the greatest extent possible to:

a. Match projected cash flows and pledged revenues;
b. Minimize the impact of future tax levies;
c. Maintain a consistent and as rapid as feasible payment of principal;
d. Maintain a level overall annual debt service payment structure; and

e. Equal the lesser of the useful life of the asset being financed or the maximum legal maturity for the obligations issued to finance the acquisition and construction of the asset.

5.1 Fixed Interest versus Variable Interest

The City generally issues fixed rate bonds primarily to protect the City against interest rate risk. The City has the option to issue variable rate bonds if market conditions warrant and Council approves it.

5.2 Other Considerations

Bonds are generally issued such that:

a. The average life is 20 years or less for general obligation bonds and revenue bonds, the City may choose a longer term for revenue bonds for projects whose lives are greater than 20 years.
b. Debt service 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.
c. Call provisions for bond issues shall be made as short as possible consistent with the lowest interest 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.

6.0 FINANCING ALTERNATIVES

The City shall develop a level of cash and debt funded capital improvement projects that provide the citizens with the desired amount of City services at the lowest cost. City staff shall assess all financial alternatives for funding capital improvements prior to issuing debt.

6.1 Pay-As-You-Go Financing

Pay-as-you-go financing should be considered before issuing any debt. Pay-as-you go financing may include: intergovernmental grants from federal, state and other sources, current revenues or fund balances, private sector contributions, and public/private partnerships. Once the City has determined that pay-as-you-go is not a feasible or sufficient financing option, the City may use bonds, loans, or other debt financing sources as deemed appropriate by City staff and approved by Council.

6.2 General Obligation Bonds

General obligation bonds may be used if the following criteria are met:

a. The size of the issuance is $2 million or above;
b. The G.O. bond funds are used for new and expanded facilities, major repair or renovations to existing facilities, or quality-of-life projects;
c. The useful life of the capital asset acquired/constructed/improved will be ten (10) years or more, or the funds will extend the useful life of an asset for more than ten (10) years; and
d. Voter authorization is given through approval in a bond election in accordance with State law and City ordinances.

6.2.1 The total dollar amount of G.O. bond election propositions recommended to the voters shall not exceed the City's estimated ability to issue said bonds within a normal four (4) year period.

6.2.2 Reimbursement resolutions, if required for funds to be advanced prior to issuance of General Obligation bonds, may be used for projects funded through General Obligation bonds.

6.2.3 G.O. bonds may be used to fund quality-of-life projects that include, but are not limited to, the City's parks, libraries, non-public safety facilities, internet and entertainment, sports and amusement-type facilities.

6.3 Capital Improvement Project Bonds ("CIP")
Capital improvement project bonds shall be secured and payable from Gross Receipts Tax (GRT) revenues.

6.3.1 The City historically has funded the majority of capital projects through CIP Bonds including:

a. Capital asset acquisitions such as heavy equipment, vehicles, IT equipment;
b. Rehabilitation, renovation, improvement and/or extension of the useful life of existing facilities;
c. Plan, design, build and construct new facilities;
d. Infrastructure projects such as street and drainage work, street resurfacing, unpaved rights-of-way, ADA retrofitting and rehabilitation projects, and street lighting;
e. Emergency rehabilitation of City facilities such as storm water drainage; or
f. Any other service or project that concerns the health, safety and welfare of the citizens.

6.3.2 C I P Bonds or other long-term debt may be considered when:

a. The need for the capital project is urgent and immediate;
b. The capital project is necessary to prevent an economic loss to the City;
c. The source of pledged revenue to pay off the CIP bond is specific and can be expected to cover the additional debt;
d. The expected debt is the most cost-effective financing option available;
e. The average maturity of the debt does not exceed the projected life of the project; or
f. The project has a value of at least five thousand dollars and a life of at least four years.

6.3.3 Reimbursement resolutions, if required for funds to be advanced prior to issuance of CIP Bonds, may be used for projects funded through CIP Bonds.

6.4 Revenue Bonds -- Enterprise Funds

Revenue Bonds for enterprise system capital improvement programs will be limited to those projects with the capability to support the debt either though their own revenue or another pledged source, other than ad valorem taxes, and which meet the same criteria as outlined above.

7.0 METHODS OF SALE

The City's debt obligations may be sold by competitive or negotiated sale methods. The selected method of sale depends upon the option which is expected to result in the lowest cost and most favorable terms to the City given the financial structure used, market conditions, and prior experience. When considering the method of sale, the City may consider the following issues:

a. Financial conditions;
b. Market conditions;
c. Transaction-specific conditions;
d. City-related conditions;
e. Risks associated with each method;
f. Complexity of the Issue – Municipal securities with complex security features require greater marketing and buyer education efforts on the part of the underwriter, to improve the investors' willingness to purchase;
g. Volatility of Bond Yields – If municipal markets are subject to abrupt changes in interest rates, there may be a need to have some flexibility in the timing of the sale to take advantage of positive market changes or to delay a sale in the face of negative market changes;
h. Familiarity of Underwriters with the City's Credit Quality – If underwriters are familiar with the City's credit quality, a lower True Interest Cost (TIC) may be achieved. Awareness of the credit quality of the City has a direct impact on the TIC an underwriter will bid on an issue. Therefore, where additional information in the form of presale marketing benefits the interest rate, a negotiated sale may be recommended. The City strives to maintain an excellent bond rating. As a result, the Municipal Bond Market is generally familiar with the City's credit quality; and
i. Size of the Issue - The City may choose to offer sizable issues as negotiated sales so that pre-marketing and buyer education efforts may be done to more effectively promote the bond sale.

7.1 Competitive Sale

In a competitive sale, bonds are awarded in a sealed bid sale to an underwriter or syndicate of underwriters that provides the lowest TIC bid. TIC is defined as the rate, which will discount the aggregate amount of debt service payable over the life of the bond issue to its present value on the date of delivery. It is customary for bids to be submitted electronically through a secure website.

7.2 Negotiated Sale

In a negotiated sale, the City chooses an underwriter or underwriting syndicate that is interested in reoffering a particular series of bonds to investors. The terms of the sale, including the size of the underwriter's discount, date of sale, and other factors, are negotiated between the two parties. Although the method of sale is termed negotiated, individual components of the sale may be competitively bid. The components are subject to a market analysis and reviewed prior to recommendation by staff. Negotiated sales are more advantageous when flexibility in the sale date is needed or when less conventional bond structures are being sold. Negotiated sales are also often used when the issue is particularly large or if the sale of the debt issuance would be perceived to be more successful with pre-marketing efforts.

7.3 Private Placement

A private placement is a negotiated sale of debt securities to a limited number of selected investors including financial institutions or government agencies or authorities. The City may engage a placement agent to identify likely investors if deemed necessary. A private placement may be beneficial when the issue size is small, when the security of the bonds is somewhat weaker, or when a governmental lending agency or authority can provide beneficial interest rates or terms compared to financing in the public market.

8.0 REFUNDING OF DEBT

All forms of refunding debt shall be approved by Council in accordance with City ordinances and the Department of Finance and Administration in accordance with State law.

8.1 Advance Refunding

Advanced refunding and forward delivery refunding transactions for savings may be considered when the net present value savings as a percentage of the par amount of refunded bonds is approximately three percent.

8.2 Current Refunding

Current refunding transactions issued for savings maybe considered when the net present value savings as a percentage of the par amount of refunded bonds is approximately three percent.

8.3 Refunding for Debt Restructuring

From time to time, the City may also issue refunding debt for other purposes, rather than net present value savings, such as restructuring debt, changing covenants, or changing the repayment source of the bonds.

9.0 DEBT LIMITS

9.1 General Obligation Bonds

The State Constitution limits the amount of outstanding general obligation bonds to four percent of the taxable value of property within the City.

10.0 MATURITY LEVELS

10.1 Revenue Debt

The term of revenue debt shall not exceed the expected useful life of the capital asset being financed and in no case shall it exceed thirty years.

10.2 General Obligation Debt

The term of general obligation debt shall not exceed the State maximum of twenty years.

11.0 <u>MANAGEMENT OF DEBT SERVICE FUND</u>

11.1 Interest Earnings

Interest earnings on bond and loan proceeds shall be used solely to fund direct or related capital expenditures, or to service current and future debt payments.

11.2 Debt Service Reserves – General Obligation Bonds

Debt service reserves for general obligation bonds shall not be required.

11.3 Debt Service Reserves – Revenue Bonds

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

11.4 IRS Rules and Regulations

The City shall comply with all IRS rules and regulations including, but not limited to, arbitrage.

12.0 <u>RATINGS</u>

Adherence to a debt management policy helps insure that the City maintains the current or an improved bond rating in order to minimize borrowing costs and preserve access to credit. Toward that end, the City will take the following steps.

12.1 Strive to maintain good relationships with bond rating agencies as well as disclose financial reports and information to these agencies and to the public.

12.2 Obtain a rating from at least one nationally recognized bond-rating agency on all issues being sold in the public market.

12.3 Make timely disclosure of annual financial information or other requested information to the rating agencies.

13.0 <u>CONTINUING DISCLOSURE</u>

The City provides continuing disclosure of financial and pertinent credit information relevant to the City's outstanding securities and will abide by the provisions of SEC Rule 15c2-12 concerning primary and secondary market disclosure. City staff shall submit a Continuing Disclosure filing prior to April 1st of each year and at other such times as may be indicated by material changes in the City's financial situation.

14.0 <u>SELECTION OF FINANCIAL ADVISOR</u>

14.1 Selection

In order to obtain the best price, achieve a high level of quality service, promote fairness and objectivity, and allow the City to compare financial advisors, the City will solicit proposals, as defined in the City Purchasing Manual, in accordance with State law and City ordinances, to select a financial advisor at least once every four years. City staff shall review the resulting professional services agreement periodically to ensure that the selected financial advisor is performing at a satisfactory level.

14.2 Scope of Work

The financial advisor selected shall provide financial advisory services related to the authorization and issuance of debt instruments, as well as debt management planning services as requested by the City.

14.3 Proposals

Any proposals submitted shall address the items defined in the Purchasing Manual, including, at a minimum, a clear and concise description of the scope of work, the length of the contract, whether joint proposals with other firms are acceptable, objective selection criteria for evaluation of proposals, and all fee structures in a standard and clear format. In addition, such proposals shall include the firms' qualifications and experience, as well as the qualifications and experience of the particular individuals to be assigned to the City.

14.4 Selection of Underwriters

In order to obtain the best price, achieve a high level of quality service, promote fairness and objectivity, and allow the City to compare underwriters, the City will work jointly with the selected Financial Advisor to select underwriters for each bond issue.

15.0 SELECTION OF BOND COUNSEL

15.1 Request for Qualifications

The City's Purchasing Manual currently exempts the procurement of attorneys from the competitive RFP process. However, in order to obtain the best price, achieve a high level of quality service, promote fairness and objectivity, and allow the City to compare bond counsel, the City reserves the right to conduct a Request for Qualifications (RFQ) to select the bond counsel for debt issues while also recognizing the value in maintaining a relationship with bond counsel due to the complexity of issues and laws related in issuing municipal bonds.

15.2 Scope of Work

Bond Counsel shall, at a minimum:

a. Possess comprehensive municipal debt knowledge and experience, as well as extensive knowledge of State municipal finance law.
b. Be responsible for providing an opinion in two specific areas: whether the securities are valid and legally binding obligations of the issuer, and whether the interest on the bonds is exempt from federal taxation.
c. Prepare all bond documents necessary to execute the bond issuance.
d. Be responsible for coordinating with the City Attorney's office, the City Clerk's office, and the City's financial advisor to ensure that all tasks associated with the bond issuance are completed within prescribed timeframes.
e. To the extent required by State law, be responsible for coordinating with the New Mexico Office of the Attorney General and the New Mexico Department

of Finance and Administration on matters relating to the approval of City obligations.

II. POST ISSUANCE POLICY

1.0 POLICY

It is the policy of the City of Santa Fe (the "City") to actively pursue the following Post-Issuance Tax Compliance Procedures (the "Procedures") to ensure that all applicable post-issuance requirements of federal income tax law are met to preserve the tax-exempt status of the City's bonds.

2.0 GENERAL PROCEDURES

2.1 The Tax Compliance Certificate

a. The Tax Compliance Certificate ("Tax Certificate") issued for each bond issue describing the requirements and provisions of the Code must be followed in order to maintain the tax exempt status of the interest on such bonds.

b. The Tax Certificate will contain the reasonable expectations of the City at the time of issuance of the related bonds with respect to the use of the gross proceeds of such bonds and the assets to be financed or refinanced with the proceeds thereof.

2.2 Procedures

The procedures supplement and support the covenants and representations made by the City in the Tax Certificate related to specific issues of tax exempt bonds. In order to comply with the covenants and representations set forth in the bond documents and in the Tax Certificate the City will monitor all City bond issues using the post issuance compliance requirements.

3.0 DESIGNATION OF RESPONSIBLE PERSON

The City Finance Director and City Cash Management and Investment Officer shall maintain an inventory of bonds and assets financed which contains the pertinent data to satisfy the City's monitoring responsibilities. Any transfer, sale or other disposition of bond-financed assets shall be reviewed and approved by the City Manager or City Council, in accordance with State law and City ordinances.

4.0 EXTERNAL ADVISORS/DOCUMENTATION

a. The City shall consult with bond counsel and other legal counsel and advisors as needed throughout the issuance process to identify requirements and to establish procedures necessary or appropriate so that the bonds will continue to qualify for tax-exempt status. Those requirements and procedures shall be documented in the Tax Certificate and/or other documents finalized at or before issuance of the bonds. Those requirements and procedures shall include future compliance with applicable arbitrage rebate requirements and all other applicable post-issuance requirements of federal tax law throughout (and in some cases beyond) the term of the bonds.

b. The City also shall consult with bond counsel and other legal counsel and advisors as needed following issuance of the bonds to ensure that all applicable post-issuance requirements in fact are met. This shall include, without limitation, consultation in connection with future long-term contracts with private parties for the use of bond-financed or refinanced assets.

c. The City shall train and employ or otherwise engage expert advisors (a "Rebate Service Provider") to assist in the calculation of the arbitrage rebate payable with respect to the investment of the bond proceeds, unless the Tax Certificate documents that arbitrage rebate will not be applicable to an issue of bonds.

d. Unless otherwise provided by the resolution or other authorizing documents relating to the bonds, unexpended bond proceeds shall be held in a segregated bond fund. The investment of bond proceeds shall be managed by the City. The City shall prepare regular, periodic statements regarding the investments and transactions involving bond proceeds.

5.0 ARBITRAGE REBATE AND YIELD

Unless the Tax Certificate documents that arbitrage rebate will not be applicable to an issue of bonds, the City shall be responsible for:

a. Engaging, by contract, the services of a Rebate Service Provider, procured in accordance with State law and City ordinances, and, prior to each rebate calculation date, delivering periodic statements concerning the investment of bond proceeds to the Rebate Service Provider.

b. Providing to the Rebate Service Provider, as may be requested, additional documents and information pertaining to the expenditure of proceeds from each bond issue being annually reviewed.

c. Monitoring the services of the Rebate Service Provider.

d. Assuring payment of the required rebate amounts, if any, no later than 60 days after each five (5) year anniversary of the issue date of the bonds, and no later than 60 days after the last bond of each issue is redeemed.

e. During the construction period of each capital project financed in whole or in part by bonds, monitoring the investment and expenditure of bond proceeds and consulting with the Rebate Service Provider to determine compliance with the applicable exceptions with any arbitrage rebate requirements.

f. Retaining copies of all arbitrage reports and account statements as described below under "Record Keeping Requirements".

6.0 USE OF BOND PROCEEDS AND BOND-FINANCED OR REFINANCED ASSETS

The City, in the Tax Certificate and/or other documents finalized at or before the issuance of the bond, shall be responsible for the following tasks:

a. Monitoring the use of bond proceeds and the use of bond-financed or refinanced assets (e.g. facilities, furnishing or equipment) throughout the term of the bonds to ensure compliance with covenants and restrictions set forth in the Tax Certificate.

b. Maintaining records identifying the capital assets or portion of capital assets that are financed or refinanced with proceeds of the bonds, including a final allocation of bond proceeds as described below under "Record Keeping Requirements".

c. Consulting with bond counsel and other legal counsel and advisors in the review of any contracts or arrangements involving private use of bond-financed or refinanced assets to ensure compliance with all covenants and restrictions set forth in the Tax Certificate.

d. Maintaining records for any contracts or arrangements involving the use of bond-financed or refinanced assets as described below under "Record Keeping Requirements".

e. Conferring, at least annually, with City personnel responsible for bond-financed or refinanced capital assets to identify and discuss any existing or planned use of bond-financed or refinanced capital assets, to ensure that those uses are consistent with all covenants and restrictions set forth in the Tax Certificate.

f. To the extent that the City discovers that any applicable tax restrictions regarding use of the bond proceeds and bond-financed or refinanced assets may have or may be violated, consulting promptly with bond counsel and other legal advisors to determine a course of action to remediate all nonqualified bonds, if such counsel advises that a remedial action is necessary.

7.0 RECORD KEEPING REQUIREMENT

The City shall be responsible for maintaining the following documents for the term of the issuance of bonds (including refunding bonds, if any) plus at least three years.

a. A copy of the bond closing transcript(s) and other relevant documentation delivered to the City at or in connection with closing of the issuance of bonds, including any elections made by the City in connection therewith.

b. A copy of all material documents relating to capital expenditures financed or refinanced by bond proceeds, including (without limitation) construction contracts, purchase orders, invoices, requisitions and payment records, draw requests for bond proceeds and evidence as to the amount and date for each draw down of bond proceeds, as well as documents relating to costs paid or reimbursed with bond proceeds and records identifying the asset or portion of assets that are financed or refinanced with bond proceeds, including a final allocation of bond proceeds.

c. A copy of all contracts and arrangements involving the use of bond-financed or refinanced assets.

d. A copy of all records of investments, investment agreements, arbitrage reports and underlying documents in connection with any investment agreements, and copies of all bidding documents, if any. [Paying agent account statements, bank statements for reserve funds, etc.]

e. The two attached forms (Attachment A - Rebate Report Review Form and Attachment B -Responsibility Matrix Forms (2)) are for use in tracking the review of arbitrage rebate reports and other responsibilities associated with post-issuance of each bond issue.

III. DEBT MANAGEMENT AND POST ISSUANCE POLICY REVIEW

This Debt Management and Post Issuance Policy shall be reviewed at least once every year by the City Council. Any modifications to this Policy, at any time, shall be approved by City Council.

IV. REVIEW AND APPROVALS

1.0 PREPARED BY: Helene R. Hausman 4/23/15
Helene R. Hausman — Date
Cash Management & Investment Officer

2.0 REVIEWED BY: [signature] 4-23-2015
Oscar S. Rodriguez — Date
Finance Director

3.0 REVIEWED BY: Kelley A. Brennan 4/21/15
Kelley A. Brennan — Date
City Attorney

4.0 APPROVED BY: ______________________
Javier M. Gonzales — Date
Mayor

5.0 ATTEST: ______________________
Yolanda Y. Vigil — Date
City Clerk