

INTRODUCED: November 13, 2017

A RESOLUTION No. 2017-R088

To adopt a new debt policy for the City of Richmond.

Patron – Mayor Stoney

Approved as to form and legality
by the City Attorney

PUBLIC HEARING: DEC 11 2017 AT 6 P.M.

WHEREAS, by Resolution No. 2012-R9-24, adopted March 12, 2012, the City Council adopted a restated debt policy, as amended, dated March, 2012, to establish guidelines for the planning, issuance, and management of debt on behalf of the City; and

WHEREAS, the Council desires to adopt a new debt policy for the City to replace the existing policy;

NOW, THEREFORE,

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF RICHMOND:

That the document entitled “The Debt Policy of the City of Richmond” and dated November, 2017, a copy of which is attached to and incorporated into this resolution, be and is

AYES: 9 NOES: 0 ABSTAIN: _____

ADOPTED: DEC 11 2017 REJECTED: _____ STRICKEN: _____

hereby adopted to replace all existing policies concerning the debt of the City and to establish new guidelines for the planning, issuance and management of debt on behalf of the City.

BE IT FURTHER RESOLVED:

That Resolution No. 2012-R9-24, adopted March 12, 2012, be and is hereby repealed except to the extent that such resolution repeals Resolution No. 91-R60-68, adopted February 25, 1991, Resolution No. 89-R37-48, adopted February 13, 1989, and all other prior resolutions amending the debt policy adopted by Resolution No. 89-R37-48, adopted February 13, 1989.



CITY OF RICHMOND
INTRACITY CORRESPONDENCE

O & R REQUEST

4-7091
OCT 6 2017

Office of the
Chief Administrative Officer

O&R REQUEST

DATE: October 4, 2017 EDITION: 1
TO: The Honorable Members of City Council
THROUGH: The Honorable Levar M. Stoney, Mayor
THROUGH: Selena Cuffee-Glenn, Chief Administrative Officer
THROUGH: Lenora G. Reid, Deputy CAO, Finance and Administration
THROUGH: Jay Brown, Director of Budget & Strategic Planning
FROM: John B. Wack, Director of Finance
RE: Revisions to the Debt Policies of the City of Richmond

Handwritten initials and date 11/7/17

RECEIVED
NOV 09 2017
OFFICE OF CITY ATTORNEY

ORD. OR RES. No. _____

PURPOSE: A resolution to amend and re-state the Debt Policy of the City of Richmond ("the Policy"). The original Debt Policy was adopted by Resolution No. 89-R37-48 on February 13, 1989 (and last amended by Resolution No. 2012-R9-24 on March 12, 2012). This policy provides overall financial guidelines for the planning, issuance, and management of the City's debt portfolio.

REASON: As part of ongoing efforts to strengthen the City's bond ratings and maintain best practices, a review of the existing debt and fund balance policies has been undertaken. The recommended adjustments to the existing Debt Policy is intended to (1) fully align the City's debt policies to the expectations of the national credit rating agency standards; (2) continue to provide financial flexibility within prudent limits; and (3) tighten certain policies where appropriate.

RECOMMENDATION: The City Administration recommends adoption of this resolution.

BACKGROUND: Staff has reviewed the City's existing Debt Policies and Fund Balance Policies with the City's financial advisors in the context of the FY2018 budgets adopted by City Council in order to continue to serve as a well-managed government. The City of Richmond's

Debt Policies have not been updated since 2012 and a number of accounting and budgeting practices have changed since that time which would significantly impact the Debt Management Policies. Likewise, the City's Fund Balance Policy has not been changed since 2012, while a number of budgeting practices have changed in recent years. Finance staff have been working with City Council staff in revisiting the Fund Balance Policy, which will separately be addressed by resolution in the near future.

The City's Debt Policy establishes parameters for the planning, issuance, and management of various types of debt. Recommended revisions to the Policy will bring the City more in line with policies adopted by peer communities, and in line with the measurements of the three national rating agencies. The recommended policies are contrasted below with the existing policies.

Total Debt to Total Assessed Taxable Valuation:

Existing Policy	Tax Supported General Obligation debt, moral obligation debt, and subject to appropriation debt, collectively referred to as Total Debt, shall not exceed 4.5% of the combined Total Assessed Valuation of taxable real estate, personal property, and machinery & tools (Total Assessed Taxable Valuation).
Recommended Policy	Tax Supported General Obligation debt, moral obligation debt, and subject to appropriation debt, collectively referred to as Total Debt, shall not exceed 3.75% of the combined Total Assessed Valuation of taxable real estate, personal property, and machinery & tools (Total Assessed Taxable Valuation).

This proposed change would conservatively enhance the City's policy guideline as related to the taxable assessed value calculation to better match peer localities and preferred rating agency guidelines without any projected need to exceed the new policy guideline in the foreseeable future. As taxable values have increased in recent years, a lower (more restrictive) percentage can be applied.

Total Debt Service as a Percentage of Total Revenue:

Existing Policy	Total Tax Supported Debt Service to be paid on General Obligation, moral obligation, and subject to appropriation debt shall not exceed 10% of the General Fund and Richmond Public Schools budgets. The transfer portion of the Richmond Public Schools budget receives from the City's General Fund will not be double counted in the calculation. The policy limit excludes self-supporting Enterprise Fund debt service such as the General Obligation debt issued and paid for by the City's Public Utilities.
Recommended Policy	Total Tax Supported Debt Service to be paid on General Obligation, moral obligation, and subject to appropriation debt shall not exceed 10% of the General Fund and Richmond Public Schools budgets plus the non-local portion of the recurring special fund for Street Maintenance. The transfer portion that the Richmond Public Schools and special fund budget receive from the City's General Fund will not

	be double counted in the calculation. The policy limit excludes self-supporting debt service such as Enterprise Fund General Obligation debt service paid for by the City's Public Utilities or other Enterprise Fund debt service paid by user fees and charges. Self-supporting debt service that is fully repaid on an annual basis by project revenues that are derived from non-local sources (i.e. rent payments from a third party or other non-City source) shall not be included.
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This proposed change would essentially maintain the City's debt capacity in light of shifting Street Maintenance from the General Fund into a new special fund beginning in FY2018.

Payout Ratio:

Existing Policy	The City's ten-year payout ratio of the City's Tax Supported debt (i.e. the principal amount of debt retired within ten years) for General Obligation, moral obligation, and subject to appropriation debt shall not be less than 60%
Recommended Policy	Same as above, to remain unchanged

Term of Debt Issued:

Existing Policy	The City will issue Tax Supported debt with an average life consistent with the useful life of the assets being financed, with a maximum maturity not to exceed 30 years.
Recommended Policy	Same as above, to remain unchanged

FISCAL IMPACT / COST: None

FISCAL IMPLICATIONS: This will essentially maintain the City's debt capacity compared to prior methodologies consistent with the FY2018 budget, which would likely be viewed favorably by rating agencies.

BUDGET AMENDMENT NECESSARY: No

REVENUE TO CITY: None

DESIRED EFFECTIVE DATE: Upon Adoption

REQUESTED INTRODUCTION DATE: November 13, 2017

CITY COUNCIL PUBLIC HEARING DATE: December 11, 2017

REQUESTED AGENDA: Consent

RECOMMENDED COUNCIL COMMITTEE: Finance & Economic Development

CONSIDERATION BY OTHER GOVERNMENTAL ENTITIES: None

AFFECTED AGENCIES: Department of Finance, Budget & Strategic Planning

RELATIONSHIP TO EXISTING ORD. OR RES.: Resolution 89-R37-48
Resolution 2012-R9-24

REQUIRED CHANGES TO WORK PROGRAM(S): None

ATTACHMENTS: Amended and Restated Policy

STAFF: John Wack, Director of Finance 646-5776
Jim Duval, Investment and Debt Portfolio Manager 646-6395

City of Richmond
Re-stated Debt Policy
November 2017

**THE DEBT POLICY
OF THE CITY OF RICHMOND**

THE PURPOSE

The purpose of this policy is to establish guidelines for the planning, issuance and management of all debt of the City of Richmond (the "City").

SCOPE AND APPLICABILITY

This policy applies to all general government, enterprise fund and internal service fund debt issued by the City, as well as debt issued by City controlled component Authorities for which the City has provided a moral obligation. The scope covers both short term and long term debt, and includes both General Obligation debt supported by the full faith and credit of the City as well as any debt supported by revenue producing activities.

AUTHORITY

Charter of the City of Richmond, Virginia (City Charter)
Chapter 7B. Borrowing

Constitution of Virginia
Article VII, Section 10

Code of Virginia, 1950, Public Finance Act of 1991
Section 15.2-2600

GENERAL POLICY GOALS

The use of public debt that amortizes over a period of years permits the City to fund capital projects to maintain and enhance City infrastructure, improve the quality of the City's neighborhoods, and promote economic growth. The establishment of prudent debt management policies helps to insure that the overall long-term obligations of the City are minimized and future debt obligations are managed within available resources.

It is important that the City maintains fiscal responsibility in the structuring and issuing of debt, so as not to exceed established legal and self imposed policy limits. In managing its debt, the City will make every effort to maintain and to improve its bond ratings. The City's bond ratings serve as external measure of quality that is widely accepted and viewed as a standard for a

municipality's creditworthiness. Maintaining strong, long-term bond ratings also allows the City to issue debt at lower borrowing rates.

The City will issue long-term debt for the purpose of planning, designing, purchasing and constructing capital projects and for making major renovations to existing City infrastructure. The City may also incur debt for acquiring vehicles, machinery and equipment with the maturity of any debt offering not exceeding the expected useful life of the acquired asset. It will be the policy of the City to budget annual operating funds for expenditures that are primarily of an on-going maintenance type activity.

DEBT MANAGEMENT POLICIES

Legal Debt Limit – State Constitutional Limit

The Constitution of Virginia provides a legal debt limit tied to the value of taxable real estate. Article VII, Section 10 of the Constitution states that no city or town will issue bonds or other debt instruments in an amount which exceeds 10% (ten percent) of the value of real estate subject to taxation. In determining the aggregate amount of outstanding debt, the Constitution allows exclusions for revenue bonds or other types of self-supporting debt, such as the Public Utility Revenue bonds that are issued and paid for by the City's Public Utility Enterprise Funds.

Tax Supported Debt – City Council Adopted Internal Debt Policies

Tax Supported debt shall include all General Obligation, moral obligation, and subject to appropriation debt (e.g. capital leases) which are paid from the general revenues of the City. The Tax Supported Debt policies listed below will not include any self-supporting General Obligation or Revenue Bond debt issued on behalf of a City Enterprise Fund (i.e. Utilities), nor will it include debt which is fully repaid on an annual basis by project revenues that are derived from non-local outside sources. It will be the policy of the City that Tax Supported debt, including bonds and notes authorized but unissued, will be limited by any one of the following:

1. **Total Debt to Total Assessed Taxable Valuation:** General Obligation debt, moral obligation debt, and subject to appropriation debt, collectively referred to as Total Debt, shall not exceed 3.75% of the combined Total Assessed Taxable Valuation of taxable real estate, personal property, and machinery & tools (Total Assessed Taxable Valuation).
2. **Total Debt Service as a Percentage of Total Revenue:** Total Tax-Supported Debt Service to be paid on General Obligation, moral obligation, and subject to appropriation debt shall not exceed 10% of the sum of General Fund and Richmond Public Schools Budget, plus the non-local portion of the recurring Special Fund Budget for Street Maintenance. The transfer portion to the Richmond Public Schools and the Street Maintenance Special Fund budget from the City's General Fund will not be double counted in the calculation. The policy limit excludes self-supporting debt service of Enterprise Funds (i.e. Utilities, Parking), as well as, general obligation debt service that is fully repaid on an annual basis from project revenues derived from outside non-local

sources (i.e. rent and other types of payments to the City that come from third-party or other non-City sources, which fully cover the required debt service).

3. **Payout Ratio:** The City's ten-year payout ratio of the City's Tax Supported debt (i.e. the principal amount of debt retired within ten years) for General Obligation, moral obligation, and subject to appropriation debt shall not be less than 60%.
4. **Term of Debt Issued:** The City will issue Tax Supported debt with an average life consistent with the useful life of the assets being financed, with a maximum maturity not to exceed 30 years. Market conditions, the useful life of the acquired assets, the City's projected cash flow, and the ability to maintain compliance with the previous Payout Ratio policy will be the primary considerations for determining the final maturity of any Tax Supported debt issue.
5. **Equity (i.e. Pay-As-You-Go) Funding of Capital Projects:** The City shall target to provide cash funding from the annual operating budget of the City for a portion of the five-year Capital Improvement Plan (CIP) budget.

General Obligation Debt

General Obligation bonds and notes are debt instruments which are secured by the full faith and credit pledge of the general taxing power of the City of Richmond. General Obligation debt will be authorized by Ordinances adopted by City Council.

Moral Obligation Debt

From time to time the City may determine that it is in its best interest to provide its Moral Obligation in support a debt obligation of a component unit. Transactions of this nature will only be undertaken when the best interest of the City is clearly demonstrated and it is shown that such moral obligations will improve the marketability or pricing of such debt instruments for the issuing agency. With the approval of City Council by adoption of an Ordinance, the City may enter into Agreements providing a City moral obligation for the payment of debt incurred by City component entities, and may even agree to pay the principal and interest when revenues of such entities may prove insufficient to cover debt service. As noted above, any contractual debt service payments the City makes toward the repayment of Moral Obligation debt from the General Fund will be included in the compliance calculations of the Tax Supported debt policies. While there may not be a legal obligation for the City to repay Moral Obligation debt, there is every expectation that the City would make good on any debt service deficiencies.

Revenue Bond Debt

Self supported Revenue Bond debt may be issued to fund enterprise activities, such as those of the City's Public Utilities. Revenue bond debt service that is paid solely from enterprise fund revenues and fees will not be included in compliance calculations of the City's Tax Supported debt policies noted above. Revenue Bond debt will be authorized by Ordinances approved by

City Council and may be structured under an Agreement or Indenture with restrictive covenants requiring the pledging of enterprise revenue, debt service coverage ratios, or establishment of debt service reserve funds.

Bond Anticipation Notes

Under an adopted Ordinance authorizing a long-term bond issue, the City may issue short term notes in anticipation of issuing general obligation bonds or revenue bonds when draw schedules or market conditions suggest that their use will result in financial benefit for the City. Notes will be placed through competitive bids, negotiated sale, or private placement as described in the City Charter. The use of Bond Anticipation Notes will be authorized in Council approved General Obligation or Revenue Bond ordinances.

Equipment Notes/Short-Term Bonds

The City may issue shorter term General Obligation Notes/Bonds to finance the acquisition of vehicles, equipment and machinery. These equipment Notes will be authorized by Ordinance adopted by City Council. The term of the debt instruments to be issued will be tied to a period not exceeding the estimated useful life of the vehicles, machinery or equipment being financed. The equipment Notes will be included in the calculation of the City debt policies as noted above.

Tax Revenue Anticipation Notes

It is the City's intention not to use tax revenue anticipation notes to fund governmental operations.

Refunding of Debt

The City's Director of Finance may refund outstanding bonds when it is determined that a refunding transaction will reduce the City's overall debt service costs. The debt service savings will generally be realized over the remaining life of the debt and the principal repayment of the new refunding bonds will have a similar maturity as the original refinanced bonds.

Credit Ratings

The City will seek to maintain or improve its bond credit ratings, as published by the three major bond rating agencies and will continue to implement policies, practices, and actions that improve move the City toward a AAA bond credit rating.