Travis County Commissioners Court Agenda Request

Meeting Date: March 18, 2014
Prepared by: Planning and Budget Office, 512-854-9106
Sponsoring Court Members: Commissioner Bruce Todd

AGENDA LANGUAGE:

Consider and take appropriate action to update Travis County Debt Policy.

BACKGROUND/SUMMARY OF REQUEST:

On September 24, 2013, Commissioner Bruce Todd sponsored an agenda item directing the Planning and Budget Office to review and update policy guidelines for the issuance of debt to be completed before the County's annual debt issuance, scheduled in the spring of 2014. The agenda item was approved by the Commissioners Court.

The Commissioners Court established financial policies in the 1990s that included a debt policy, most of which is intact today. The Commissioners Court has subsequently updated the policy periodically, with the most recent changes approved in 2008. The purpose of the debt policy is to establish a set of prudent guidelines regarding the issuance and monitoring of debt obligations. Among other provisions, this policy indicates that the Commissioners Court will not issue long-term debt (defined by the County as having a repayment period in excess of five years) without approval by voters through an election, except under at least one of the following circumstances:

- The expenditure is legally required of the County, where penalties or fines could be imposed on the County if the expenditure is not made, or
- When a financial analysis demonstrates that during a stipulated term Travis County would spend significantly less, or
- The voters have previously approved the issuance of general obligation bonds but, for valid reasons, certificates of obligation must be substituted for such bonds in order to carry out the voters' authorization, or
- When the expense is for necessary planning services or acquiring options for a future capital project that will be submitted to the voters.

While several urban cities in Texas include similar criteria in their debt policies about when to issue non-voter approved debt, staff was unable to locate similar written policies for other urban counties in Texas. Additionally, the Planning and Budget Office has compared the current debt policy to best practices published by the Government Finance Officers Association. In many instances, the County already follows these best practices even though not specifically outlined in the current debt policy.

RECOMMENDATIONS:

Incorporate the following changes to the debt policy to clarify or improve existing language, and reflect best practices identified by the Government Finance Officers Association. Recommended changes are outlined as follows:

- Provide a stronger purpose statement in the debt policy.
- Stipulate that the debt policy should be reviewed by the Commissioners Court at least every five years.
- Add language requiring adherence to applicable state laws and bond covenants.
  - Travis County already does this in practice.
- Add a reference in the debt policy to the County's separate investment policy regarding how proceeds may be invested.
  - Further, specify that derivatives will not be used in connection with the investment of bond proceeds or in connection with the issuance of debt.
- Add language that the County will consider issuing debt using the method of sale recommended by the County's independent municipal financial advisor.
  - Travis County already does this in practice.
- Add language that the County may issue refunding bonds if in the best financial interest of the County, and after consultation with the County's independent municipal financial advisor.
  - Travis County already does this in practice.
- Add language of the County's intention to adhere to its written post-issuance federal compliance procedures for tax-exempt debt.

Staff recommends that the Commissioners Court adopt the proposed revisions to the debt policy.

ISSUES AND OPPORTUNITIES:

As rules and best practices change, reviewing the debt policy at least every five years will help ensure that the County remains up to date with recommended policies and practices that are important to the major credit rating agencies.

FISCAL IMPACT AND SOURCE OF FUNDING:

None

ATTACHMENTS:

- Redlined debt policy highlighting recommended changes to the current policy
- Powerpoint slides that outline:
  - History and basic elements of Travis County debt policy
  - Best practices published by the Government Financial Officers Association
  - Key components that demonstrate credit worthiness
  - Appendix: Comparison of Travis County debt policy to policies of other Texas urban counties and cities

REQUIRED AUTHORIZATIONS:

The proposed changes to the debt policy have been reviewed by the Commissioners Court Planning and Budget Office Subcommittee, the County Auditor's Office, the County's Bond Counsel, and the County's Independent Municipal Financial Advisor.

TRAVIS COUNTY DEBT POLICY

The purpose of this policy is to provide guidelines governing the issuance, management, and the continuing evaluation and reporting of all Travis County debt obligations. This policy is intended to provide parameters for the Commissioners Court in deciding whether to issue additional debt and ~~to attempt to~~ in keeping ~~the~~ debt ~~issuance~~obligations of the County within established limits.

This policy will be reviewed by the Commissioners Court at least once every five years to ensure the policy is relevant and up to date.

General Approach to Debt

I. Travis County will maintain a prudent approach to the issuance of debt that adheres to all applicable state laws, as well as any associated bond covenants. This approach includes the following:

- Travis County will ensure that necessary services are provided in this community in a timely and sufficient manner using current revenues.

- Travis County will ensure that necessary equipment and facilities are provided to County departments in a timely manner using the most frugal method of payment available for such expenditures.

- Routine purchase and replacement of capital equipment, such as computer equipment, furniture, and "down payments" on larger capital projects will be financed through the Capital Acquisition Resources Account from current operating revenues. This account will be gradually adjusted as existing funds become available and as economic circumstances allow, to reduce or to eliminate the need for issuing debt or entering into any other financing arrangement for recurring operating equipment purchases.

- Sale of ~~bonds or certificates of~~ debt obligations will follow general market conventions assuring the best interest rate deemed possible at the time~~, as determined by the Commissioners Court,~~ based upon advice from the County's independent municipal financial advisor~~s~~.

II. The Travis County Commissioners Court will not issue long-term debt (with a repayment period in excess of five years) without the approval of such bond issue by the voters at an election, except under the following circumstances:

1. The expenditure is legally required of the County, where penalties or fines could be imposed on the County if the expenditure is not made. Or,

2. When a financial analysis demonstrates that during a stipulated term Travis County would spend significantly less. Or,

3. The voters have previously approved the issuance of general obligation bonds but, for valid reasons, certificates of obligation must be substituted for such bonds in order to carry out the voters' authorization. Or

4. When the expense is for necessary planning services or acquiring options for a future capital project that will be submitted to the voters.

III. Capital expenditures, particularly those involving the issuance of debt, will be approved only in the context of multi-year planning by the County.

Process to Determine Needs

- Expenditures for capital improvements and equipment will be requested, justified and approved, specifying the recommended method of finance for such expenditures as part of the annual County budget process, prior to budget adoption.

- Each year as part of the budget process, the Planning and Budget Office will prepare a debt report analyzing all recommended expenditures which are proposed to be financed with debt. The report will explain the impact the proposed new debt will have on the County's debt service tax rate and an analysis of such impact on the average county taxpayer, and the impact of the issuance of the proposed County debt in light of the general obligation debt of other taxing entities in Travis County (schools, cities, special districts).

- Building renovation or construction projects will be reviewed and assessed by the Facilities Management Department prior to consideration by the Commissioners Court.

- The Transportation and Natural Resources Department will review and assess any project which includes roads, drainage or parks prior to consideration by the Commissioners Court.

- The Commissioners Court will decide which projects will be undertaken, the timing of those projects and the source of funding to be provided for accomplishment of those projects.

Debt Policies

- The County may issue General Obligation Bonds, Certificates of Obligation, Revenue Bonds, Refunding Bonds, State Highway Bonds, and other debt instruments authorized for issuance by a county in accordance with the Texas Government Code or other applicable law.

- Debt proceeds will be invested in accordance with the Travis County Investment Policy and Procedures and applicable state laws. Derivatives will not be used in connection with investment of debt proceeds or in connection with issuance of debt.

- A debt service reserve of at least 10% of total debt service requirements for the current fiscal year will be maintained to ensure availability of funds to meet the debt service payments in the event of tax revenue shortfalls.

- The term of any debt should not exceed 20 years, and should never exceed the useful life of the asset being financed~~,~~ or the weighted average useful life of a group of assets when multiple assets are funded in a single issue.

- Except in the case of revenue producing facilities, debt will not be issued for the purpose of making debt service interest payments. If interest capitalization becomes necessary, it will only be used for three years or the period of the construction phase, whichever is the shorter period.

- Delays in repayment of principal will be part of the debt structure only if in a particular circumstance such delay is seen to be in the County's best financial interest.

- Interest earnings on bonds which have been sold will be retained in the project until that project is completed unless the Commissioners Court has instructed otherwise in a bond covenant or official statement. Funds ~~un~~unknot needed for the project after its completion will be either transferred to the Interest and Sinking Fund in order to mitigate the need to increase the debt service tax rate or may be used for projects of a similar nature as allowed by law. Excess funds will not be allowed to increase the scope of the original project without additional justification and analysis.

- Optional debt redemption shall be provided for, based upon the advice of the County's independent municipal financial advisor.

- Travis County will maintain a ratio of annual short-term debt service payments to total debt service of 25% or less, and short-term debt service payments to total General Fund expenditures of 5% or less.

- Guidelines in the form of industry-standard ratios will be reviewed in conjunction with each debt issuance in order to provide a framework within which to view overall Travis County debt. Those guideline ratios include:

  <u>Primary Guidelines</u>

  1. Net bonded debt to taxable value should not exceed the range of 1.0%-1.5%.

  2. Net bonded debt to population should not exceed $800 per capita.

  3. Debt service to total expenditures (operating expenditures and debt service combined) shall be approximately 20% or less.

  <u>Secondary Guideline</u>

  A total debt target of 5% of taxable value for all overlapping debt in Travis County (county, city, school district and other) will be established, in concert with cooperative efforts toward sharing this goal with the other debt-issuing entities.

- The debt analysis will ~~also~~ show the anticipated net bonded debt ~~per~~to taxable value and the net bonded debt per capita that will been shown as a part of an upcoming official statement.

- Travis County may issue debt using the sale method recommended by the County's independent municipal financial advisor (competitive, negotiated, or private placement) deemed to be in the best financial interest of the County.

- Travis County may issue refunding bonds as recommended by the County's independent municipal financial advisor, and deemed to be in the best financial interest of the County.

- Travis County will follow its written post-issuance federal tax compliance procedures for tax-exempt debt.

Approved by the Commissioners Court on ~~March 18, 2008~~[March, 18, 2014 or other date to be determined]

TRAVIS COUNTY REVIEW OF DEBT POLICY

MARCH 2014

OUTLINE

- Travis County Debt Policy
  - History
  - Basic elements of policy
- Government Finance Officer Association's best practices
  - Best Practices in Travis County Debt Policy
- Key components that demonstrate credit worthiness
  - Goal = AAA credit rating to minimize interest costs
- Appendix: Comparison of Travis County Debt Policy to policies of Texas Urban Counties and Cities

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DEBT POLICY HISTORY

- Commissioners Court first adopted financial and budgeting guidelines in 1990s
  - Included a debt policy, most of which is still intact today
- Commissioners Court last adopted revisions to the Debt Policy in 2008
  - Allowable debt per capita increased from $500 to $800
    - Staff recommendation due to increased construction prices and higher interest costs
  - Differentiation between primary and secondary financial ratios
    - Staff recommendation to track overlapping debt, but not as a primary ratio since it is not primarily in Travis County's control

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EXISTING DEBT POLICY

- General Debt Principles
  - Fund County services from current revenue
  - Fund equipment and facilities as cost effectively as possible
    - Use cash to pay for replacement equipment if possible
  - Long-term debt (more than 5-year maturity) should be voter approved
    - Unless project meets exceptions:
      - Mandated project (if not completed, would be subject to fines or penalties)
      - Financial analysis indicates County would spend significantly less
      - For voter approved projects if appropriate
      - Planning or acquisition related to future project(s) to be submitted to voters
- Determination of Capital Needs
  - Departments identify critical project needs and priorities
  - Annual analysis of financial impact of planned debt issuance

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EXISTING DEBT POLICY

- Specific Debt Policies
  - Maintain reserve in debt service fund = 10% of annual debt service requirements
  - Term of debt not to exceed 20 years or life of asset to be acquired, or weighted average life of assets funded in a single issuance
  - Repayment of principal should not be deferred or delayed unless in the County's best financial interest
  - Interest earnings on bonds to be retained within each project until completion

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EXISITNG DEBT POLICY

- Specific Debt Policies (continued)
  - Provide for optional debt redemption if feasible
  - Debt service ratios
  - Industry benchmarks to be reviewed annually
    - Net bonded debt to taxable value not to exceed 1.0% to 1.5%
    - Net bonded debt to population not to exceed $800 per capita
    - Total debt service to expenditures to be approximately 20% or less
    - Secondary guidelines
      - Goal of outstanding overlapping debt not to exceed 5% of taxable value
      - Share this goal with other local taxing jurisdictions

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BEST PRACTICES
DEBT MANAGEMENT

- Debt Management: In 1993, the Government Finance Officers Association (GFOA) developed a body of recommended practices in the functional areas of public finance to give GFOA members and other state and local governments more guidance on sound financial management practices.
  - Recommends local governments have written policy that is reviewed periodically
    - Travis County last revised debt policy in 2008
    - **Recommendation: Review policy with Commissioners Court at least every 5 years to ensure policy is always relevant and updated.**

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BEST PRACTICES
DEBT LIMITS

- Debt limits: Consider setting specific limits or acceptable ranges for each type of debt. Limits generally are set for legal, public policy, and financial reasons.
  - Legal restrictions
    - State law
    - Local charter, by-laws, resolution or ordinance, or covenant
    - Bond referenda approved by voters
      - Travis County adheres to state law and bond covenants in practice
      - **Recommendation: Add language indicating compliance.**

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BEST PRACTICES
DEBT LIMITS (CONTINUED)

- Policy restrictions
  - Purposes for which debt can be issued
    - Travis County includes several policy restrictions such as:
      - Priority to use General Fund resources for routine capital expenditures when appropriate
      - Guidelines on how capital expenditures will be approved
  - Types of allowable debt
      - Travis County issues General Obligation Bonds, State Highway Bonds and Certificates of Obligation, as well as Refunding Bonds
      - **Recommendation: List types of debt issued.**
  - Integration with Capital Improvement Program
      - Policy includes process to determine needs that outlines annual capital process and debt modeling

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BEST PRACTICES
DEBT LIMITS (CONTINUED)

- Financial restrictions or planning considerations - generally reflect public policy or other financial resource constraints
  - Ratios considered key by credit rating agencies:
    - Debt per capita
    - Debt to personal income
    - Debt to taxable property value, and
    - Debt service payments as a percentage of general fund revenues and expenditures
      - Travis County has specific primary and secondary key ratios that are reported and monitored annually including:
        - Debt per capita
        - Debt to taxable value
        - Debt service payments to total expenditures

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BEST PRACTICES
DEBT STRUCTURE

- Debt structuring practices: Include specific guidelines regarding debt structuring practices for each type of bond.
  - Maximum term and average maturity
    - Travis County's maximum term is 20 years and does not exceed the useful life of the financed asset (or weighted average useful life of a group of assets)
    - Travis County policy does not address average maturity of debt - currently 8.4 years
  - Debt service patterns and other structuring practices
    - Policy does not allow for delays in repayment of principal unless it is in the County's best financial interest
    - Policy specifies that optional debt redemption shall be provided for, based upon the advice of the County's financial advisor
    - Policy specifies that except in the case of revenue producing facilities, debt will not be issued for the purpose of making debt service interest payments

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BEST PRACTICES
DEBT ISSUANCE

- Debt issuance practices: Provide guidance regarding the issuance process, which may differ by type of debt.
  - Selection and use of professional service providers including an independent financial advisor to assist with method of sale and investment of proceeds
    - Travis County has an independent financial advisor and refers to such professional services in policy
    - Travis County has a separate investment policy that is reviewed and approved by the Commissioners Court annually
      - Lists eligible investments for debt proceeds
      - **Recommendation: Add a reference in Travis County's debt policy to investment policy regarding how proceeds may be invested.**

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BEST PRACTICES
DEBT ISSUANCE (CONTINUED)

- Criteria for determining method of sale
  - Competitive versus negotiated
    - **Recommendation: Add language that County may use competitive sales, negotiated sales, or private placements in consultation with Financial Advisor.**
  - Criteria for issuance of advance and current refunding bonds
    - Travis County consults with Financial Advisor on issuance of advanced and current refunding bonds. Generally, achieving at least 3% present value savings serves as threshold for refunding outstanding debt.
    - **Recommendation: Add language that County may issue advance and current refunding bonds if in the best interest of the County and upon consultation with Financial Advisor.**
  - Criteria for use and selection of credit rating services
    - Travis County has maintained the highest credit rating from Moody's and Standard and Poor's rating agencies since 2001

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BEST PRACTICES
DEBT MANAGEMENT

- Debt management Practices: Provide guidance for ongoing administrative activities.
  - Investment of bond proceeds
    - Travis County has a separate investment policy that is reviewed and approved on an annual basis
  - Market Disclosure Practices
    - Travis County submits its Comprehensive Annual Financial Report to Municipal Securities Rulemaking Board and complies with Rule 15c2-12 Disclosures as required
  - Arbitrage rebate monitoring
    - Travis County contracts for arbitrage rebate monitoring services
      - First Southwest – Asset Management
  - Federal and state law compliance
    - Travis County is currently developing post issuance compliance procedures
    - **Recommendation: Add language of intent to adhere to post issuance compliance procedures.**

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APPENDIX: DEBT POLICIES

OTHER TEXAS CITIES/COUNTIES

CITY OF AUSTIN

- AAA credit rating
- Maintain reserve in debt service fund = 10% of annual debt service requirements; level debt service payments
- Bonded debt limited to 2% of assessed valuation
- Requires at least 4.25% NPV savings to refund existing debt.
- Priority to fund capital expenditures with cash or voter approved debt, unless:
  - Urgent
  - Unanticipated
  - Necessary to prevent economic loss or results in economic gain
  - Non voter approved debt is most cost effective option
- Defines need to competitively procure professional services periodically, including bond counsel and financial advisor

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BEXAR COUNTY/ CITY OF SAN ANTONIO

- Bexar County
  - AA+ credit rating
  - More procedural than policy oriented
    - Clear definitions of roles and responsibilities
    - Well written regarding legal parameters, but largely discretionary
  - Debt service reserve = 10% of annual debt service requirements
  - Allows operating expenses associated with project implementation to be funded with debt
  - Specific "not-to-exceed" debt ratios are not quantified, simply indicates industry benchmarks will be considered
  - No mention of when to seek voter approval, or when to issue certificates of obligation (non voter approved)
  - At least 3% NPV savings needed to refund existing debt
  - Arbitrage and material event disclosure, reimbursement resolutions
- City of San Antonio
  - Unable to obtain written policies, but solid practices have yielded AA+ rating per discussions with the City's treasury office

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DALLAS COUNTY

- AAA credit rating
- Extremely conservative policy, although large "not-to-exceed" limitations in policy
- Main practical driver = limit total debt service payments to 25% of total operational expenditures
  - Encourage cash funding rather than debt funding
- No mention of when to seek voter approval, or when to issue certificates of obligation (non voter approved)
- Average weighted maturity = 10.5 years
  - Certificates of obligation (COs) not to exceed 10-year maturity
- Limit COs in any given year to greater of 5% of total debt or amount of COs scheduled to be retired
- Equal principal amounts retired annually (declining balances)
- Bonded debt limited to 1% of assessed valuation
- Maintain beginning balance in debt service fund equal to 50% of subsequent year's debt service

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CITY OF DALLAS

- AA+ credit rating, stable outlook
- Bonded debt limited to 4% of true market valuation of taxable property
- Direct + overlapping debt not to exceed 8% of market value of taxable property
  - Discuss with other jurisdictions when approaches 6% level
- Average debt maturity to be kept below 10 years
- Limit total debt service payments to 20% of total operational expenditures
- Debt per capita not to exceed 10% of per capita annual personal income
- COs mainly used for "risk management" funding
  - Not to exceed 20-year maturity

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HARRIS COUNTY/ CITY OF HOUSTON

- Harris County
  - AAA credit rating
  - Unable to obtain written financial or debt policies
  - Rating based on:
    - Good liquidity
    - Solid local economy
    - Structurally balanced budgets
    - Low direct debt burden
    - Unused property tax margin
- City of Houston
  - AA credit rating
  - Average debt maturity to be kept below 12 years
  - Limit total debt service payments to 20% of total operational expenditures
  - Issue short-term debt to obtain interim financing, fund assets with shorter useful lives, or reduce overall financing costs

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TARRANT COUNTY/ CITY OF FORT WORTH

- Tarrant County
  - AAA credit rating
  - Unable to locate financial or debt policies
  - Ratings based on
    - Substantial tax base that continues to show modest yet stable growth
    - Stable financial performance resulting from sound management practices
    - Modest debt profile
    - Challenge: Below average reserve position when compared to similarly rated counties
- City of Fort Worth
  - AA+ credit rating
  - Issue COs under the following conditions:
    - Cost overruns on voter approved projects
    - Emergency conditions require a capital improvement to be funded rapidly
    - Financial opportunities unexpected y arise to leverage funds from other entities and reduce capital costs
    - The timing of he construction of a capital improvement and the expense of calling a bond election for a single proposition would, in the opinion of staff and with the approval of the Council, warrant the issuance of COs to finance the capital improvement

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