Travis County Commissioners Court Agenda Request

Meeting Date: April 22, 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:

The Planning and Budget Office reviewed the Travis County debt policy and is recommending several changes. These changes are intended to clarify or improve existing language and to reflect best practices identified by the Government Finance Officers Association. Recommended changes previously shared with Commissioners Court include:

- Providing a stronger purpose statement in the debt policy.
- Stipulating that the debt policy should be reviewed by the Commissioners Court at least every five years.
- Adding language requiring adherence to applicable state laws and bond covenants.
- Adding a reference to the County's separate investment policy that identifies how proceeds may be invested and that derivatives are not used.
- Adding language that the County will consider issuing debt using the method of sale recommended by the County's independent municipal financial advisor.
- Adding 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.
- Adding language of the County's intention to adhere to its written post-issuance federal compliance procedures for tax-exempt debt.

RECOMMENDATIONS:

PBO recommends that Commissioners Court incorporate the changes reviewed on March 18th as well as the following additional changes to the debt policy:

- Add language clarifying that the policy is a set of guidelines that are meant to be parameters in serving the public interest not absolute terms.
    - Language serves to clarify that the policy does not supersede the Commissioners Court's charge to serve the taxpayers of Travis County but instead provides a framework for the issuance and management of debt.
- Refine language from "necessary" to "essential" related to services provided by Travis County to the community using current revenues.

- Add infrastructure to the list of expenditures that the County will ensure are provided in the most cost effective manner to broaden the County's focus on a timely and cost effective approach to financing capital expenses;

- Add an exception allowing for the issuance of long term debt for the purchase of real estate where delays would impede the County's ability to negotiate on behalf of the taxpayer.
    - The addition of this language clarifies that an exception will be made to protect the County's position in a negotiation of real estate if the Commissioners Court has determined that securing the land, building or right-of-way is in the best interest of the taxpayer.

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 and best serve Travis County taxpayers.

FISCAL IMPACT AND SOURCE OF FUNDING:

None.

ATTACHMENTS:

- Legislative and clean copies of the recommended debt policy changes

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.

PLANNING AND BUDGET OFFICE
TRAVIS COUNTY, TEXAS

700 Lavaca Street
P.O. Box 1748
Austin, Texas 78767

MEMORANDUM

TO: Commissioners Court

FROM: Jessica Rio, Budget Director
Travis Gatlin, Assistant Budget Director Travis R. Gatlin

DATE: April 17, 2014

SUBJECT: Request to update Travis County Debt Policy

On March 18, 2014, PBO discussed recommended changes to the Travis County Debt Policy. The presentation included a history of the debt policy, best practices published by the Government Finance Officers Association (GFOA), key components demonstrating credit worthiness, and an appendix with a comparison of the Travis County debt policy to policies of other Texas urban counties and cities. Additional suggestions were made by Commissioner Gómez; PBO has reviewed the suggested changes with the County Auditor, the County's Bond Counsel and the County's Independent Municipal Financial Advisor and is recommending further changes summarized below and noted on the attached legislative style document in red:

- Purpose Statement:
  - Changed the purpose statement to more clearly emphasize the Commissioners Court's ability to use judgment on the application of the policy.
- General Approach to Debt:
  - Changed "necessary services" to "essential services" that the County will ensure are provided to the community in a timely manner using current revenues;
  - Added infrastructure to the list of expenditures that the County will ensure are provided in the most cost effective manner to broaden the County's focus on a timely and cost effective approach to financing capital expenses.

- Long-Term debt exceptions:
  - Made a few minor wording changes to the exception language for ease of reading;
  - Added one exception related to the purchase of real estate.
    - The addition of this language clarifies that an exception will be made to protect the County's position in a negotiation of real estate if the Commissioners Court has determined that securing the land, building or right-of-way is in the best interest of the taxpayer.
- All other recommended changes in the policy were reviewed with the Commissioners Court on March 18th.

There are comments on the legislative version that also provide the explanation for the recommendation so that you may review the changes easily. A clean version of the proposed policy is also included for your review.

CC David Escamilla, Travis County Attorney
John Hille, County Attorney's Office
Leroy Nellis, Acting County Executive, PBO
Tom Nuckols, County Attorney's Office
Ladd Pattillo, Travis County Municipal Financial Advisor
Glenn Opel, Bond Counsel
Victoria Ozimek, Bond Counsel
Nicki Riley, Travis County Auditor
Hannah York, County Auditor's Office

TRAVIS COUNTY DEBT POLICY

The purpose of this policy is to provide ~~guidelines~~ guidance 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 keep the debt issuance of the County within established limits. These guidelines are meant to be parameters in serving the public interest, not absolute terms.

Comment [JAR1]: Recommendation to provide a strong clear purpose statement that incorporates all aspects of the debt issuance and management process.

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.

Comment [JAR2]: Reflects best practice of maintaining a current policy that is reviewed and updated on a timely basis.

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:

Comment [JAR3]: Reflects best practice to explicitly state our adherence to applicable laws and bond covenants.

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

- Travis County will ensure that necessary equipment~~, and~~ facilities and infrastructure are provided ~~to County departments~~ in a timely manner using the most ~~frugal~~ cost-effective 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 advisors.

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

3. The expenditure is for the purchase of real estate (including buildings, land or right-of-way) where delays for a bond referendum would impede the County's ability to negotiate and be competitive on behalf of the taxpayers. Or,

~~3.~~ 4. 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.~~ 5. ~~When T~~ Tthe 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.

Comment [JAR4]: This exception acknowledges critical timelines and the necessity to maintain a strong position while negotiating a potential purchase of real estate for the benefit of the County.

Comment [JAR5]: Reflects best practice to include types of debt that could be issued. Other types of debt issuance are allowable if issued in accordance with applicable laws.

- 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.

Comment [JAR6]: Reflects best practice to state how bond proceeds are invested. In addition, GFOA states that the policy should clearly state whether derivatives are used.

- 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~~ not 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:

Primary Guidelines

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.

Secondary Guideline

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 when 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.

Comment [JAR7]: Reflects best practice to explicitly list methods of sale considered under the advisement of the financial advisor.

Comment [JAR8]: Reflects best practice to explicitly state that the County may issue refunding bonds if in the best financial interest of the County.

Comment [JAR9]: Post-issuance Federal Tax Compliance Procedures are intended to assure each tax-exempt bond issue meets the applicable federal tax-exempt bond requirements.

Approved by the Commissioners Court on ~~March 18, 2008~~[April 22, 2014 or other date to be determined by Court].

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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

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- Travis County will ensure that essential services are provided in this community in a timely and sufficient manner using current revenues.
- Travis County will ensure that necessary equipment, facilities and infrastructure are provided in a timely manner using the most cost-effective 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.
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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. A financial analysis demonstrates that during a stipulated term Travis County would spend significantly less. Or,

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- Travis County may issue refunding bonds as recommended by the County's independent municipal financial advisor when 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 [April 22, 2014 or other date to be determined by Court].