



Debt and Financial Policies Updates Summary of Major Changes

PRESENTED TO THE CITY COUNCIL ON

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FINANCIAL POLICY – KEY AMENDMENTS

- Finance Committee
- Legal Compliance
- Budget Adoption
- Financial Reporting
- Property Tax Revenues
- PILOT Calculation
- Electronic Transfers
- Debt Service Fund Reserves

DEBT POLICY – KEY AMENDMENTS

- **Purpose Statement Expanded**
- **Scope Clarified**
- **Debt Structuring Guidelines Added**
- **Interest Rate Types**
- **Sale Methods Defined**
- **Credit Rating Practice Defined**
- **Continuing Disclosure**
- **Selection of Financial Advisor and Bond Counsel**
- **Debt Ratios Updated**

Financial Policy Updates

Summary of Major Changes

- Changed meeting requirements for the Finance Committee from quarterly to at least four times a year and added Finance Report review (audit) as a function of the committee.
- Corrected State law references for Auditors Qualifications, Auditors' Repute, and Prompt Payment sections
- Under filing and adoption of the Operating Budget added the following sentence: **If a tax rate is not adopted by September 30, the tax rate for that tax year will be the lower of the no-new-revenue tax rate calculated for the tax year or the tax rate adopted by the taxing unit for the preceding tax year in accordance with State Law.**

Financial Policy Updates Continued

- Reporting Section changed as follows:
- Summary financial reports will be presented to the departments ~~within 10 business days~~. City Council will receive a ~~quarterly~~ financial summary of key funds within 30 ~~to 45~~ days after the end of each ~~quarterly period (December, March, June and September)~~. month with the exception of the first quarter of the fiscal year. The report will be provided within 30 days after the first quarter of the fiscal year.

Financial Policy Updates Continued

- Property Tax Revenues changed as follows: All real and business personal property located within the City shall be valued at ~~100% of the~~ fair market value for any given year based on the current appraisal supplied to the City by the ~~Johnson County~~ Central Appraisal District of Johnson County and Tarrant ~~County~~ Appraisal District.

Financial Policy Updates Continued

- Payment in Lieu of Taxes changes as follows:

A fee will be charged to the Utility Fund to equate to property taxes lost due to municipal ownership. ~~Net book value~~ Total Assets from the most recent audited financials will be used as a basis, barring the absence of known market value. The ~~existing~~ tax rate from the same fiscal year as the most recent audited financials will be applied to this base to determine the PILOT charge.

- Changed wire transfers to electronic transfers throughout policy to include ACH transfers and bank transfers.
- General Obligation Debt Service Funds has been changed as follows:

General Obligation Debt Service Funds will ~~not~~ have ~~reserves~~ a reserve of approximately \$1,000,000. The policy above does not ~~preclude~~ include the debt service reserves normally established to market revenue bonds.

Financial Policy Updates Continued

- AUTHORIZATION OF INVESTMENTS AND PAYMENTS changed as follows:. Two signatures are required to conduct business on behalf of the City of Burleson, Texas. Both the City Manager and the Director of Finance, or their designee(s), are hereby authorized to approve investments and payments for the City.
- AUTHORIZATION OF ELECTRONIC TRANSFERS BY THE CITY changed as follows: In general, electronic transfer responsibilities and processes are set by the Director of Finance in accordance with banking resolutions adopted by the City Council and the Investment Policy. Processes will require two individuals assigned by the Director of Finance to separate the duties of initiating a transaction and approval of a transaction.
- Based on the changed two sections, Attachments A through D allowing wire transfer authorization, safekeeping agents, investments and paying agents have been removed. They will be handled administratively by the Director of Finance.

Debt Policy Updates

Summary of Major Changes

Added to Purpose:

The City of Burleson 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.

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.

Debt Policy Updates- Added to Policy Statement

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 ad valorem taxes, general City revenues, enterprise fund revenues or any other identifiable source of revenue that may be identified for appropriate pledging for bonded indebtedness.

Debt Policy Updates – Added to Debt Structure

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

1. Target projected cash flows and pledged revenues;
2. Minimize the impact on future tax levies;
3. Target a consistent and as rapid as feasible payment of principal;
4. Maintain a level overall annual debt service payment structure; and
5. Target the equal or the lesser of the useful life of the asset being financed.

FIXED INTEREST VERSUS VARIABLE INTEREST

The City generally issues fixed-rate bonds primarily to protect itself against interest rate risk. However, the city has the option to issue variable-rate bonds if market conditions warrant and the Council approves them.

Debt Policy Updates – Methods of Sale

A. 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.

B. 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.

Debt Policy Updates – Methods of Sale

C. Private Placement

A private placement is a negotiated sale of debt securities to a limited number of selected investors including financial institutions, 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.

Debt Policy Updates – Methods of Sale

The City's debt obligations may be sold by competitive sale, negotiated sale or private placement 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 Council may consider the following issues:

1. Financial conditions;
2. Market conditions;
3. Transaction-specific conditions;
4. City-related conditions;
5. Risks associated with each method;
6. Complexity of the Issue;
7. Volatility of Bond Yields;
8. Familiarity of Underwriters with the City's Credit Quality;
9. Size of the Issue

Debt Policy Update - Ratings

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. Toward that end, the City will take the following steps.

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.
2. Obtain a rating from at least one nationally recognized bond-rating agency on all issues being sold in the public market.
3. Make timely disclosure of annual financial information or other requested information to the rating agencies.

Debt Policy Update – Continuing Disclosure

The City will take all appropriate steps to comply with federal securities laws, including, but not limited to, Securities and Exchange Commission ("SEC") Rule 15c2 -12 the ("Rule"). The City will make annual and event disclosure filings to the MSRB via EMMA as required by the Rule and its continuing disclosure undertakings.

Debt Policy Update – Selection of Financial Advisor

The City shall retain an independent financial advisor for advice on the structuring of new debt, financial analysis of various options, including refunding opportunities, the rating review process, the marketing and marketability of City debt obligations, issuance and post-issuance services, the preparation of offering documents (each, an "Official Statement") and other services, as necessary. The City will seek the advice of the financial advisor on an ongoing basis. The financial advisor will perform other services as defined by the agreement approved by the City Council. The financial advisor will not bid on nor underwrite any City debt issues in accordance with MSRB rules.

Debt Policy Update – Selection of Bond Counsel

The City shall retain bond counsel for legal and procedural advice on all debt issues. Bond counsel shall advise the City Council in all matters pertaining to its bond ordinance(s) and /or resolution(s). No action shall be taken with respect to any obligation until a written instrument (e.g., Certificate Ordinance or other legal instrument) has been prepared by the bond attorneys certifying the legality of the proposal. The bond attorneys shall prepare all ordinances and other legal instruments required for the execution and sale of any bonds issued which shall then be reviewed by the City Attorney and the Director of Finance. The City will also seek the advice of bond counsel on all other types of debt and on any other questions involving state law and federal tax or arbitrage law. Special counsel may be retained to protect the City's interest in complex negotiations.

Current and Additional Debt Ratios

Net Debt Per Capita – The City shall strive to maintain the current Net Debt per Capita at or below \$3,000. (Existing)

Net Debt to Assessed Value – The City shall strive to maintain a ratio of Net Debt to Assessed Value of properties in the City at or below three percent (3%). (Existing)

Debt Service Tax Rate – The City will target a debt service tax rate the makes up 35% or less of the City's total property tax rate. (New Debt Ratio)

Debt Ratios (Actuals)

<u>DEBTRATIOS</u>					
Fiscal			Net Tax-	Ratio of Net	Net Tax-
Year	Estimated	Taxable Assessed	Supported	Debt to	Supported
Ended	Population	Value	Debt	Assessed	Debt Per
			Outstanding	Valuation	Capita
2020	47,641	\$ 4,393,345,069	\$66,973,129	1.52%	\$ 1,406
2021	47,730	4,707,770,267	59,462,359	1.26%	1,246
2022	50,210	5,063,981,931	55,917,367	1.10%	1,114
2023	51,715	6,041,667,211	60,890,626	1.01%	1,177
2024	53,501	6,339,701,821	69,368,236	1.09%	1,297

<u>DEBT SERVICE TAX RATE PERCENTAGE</u>				
Fiscal	Debt			Debt as
Year	Service	M&O Tax	Total Tax	Percent
Ended	Tax Rate	Rate	Rate	of Total
				Tax Rate
2020	0.2094	0.5106	0.7200	29.1%
2021	0.1924	0.5187	0.7111	27.1%
2022	0.1885	0.4974	0.6859	27.5%
2023	0.1923	0.4649	0.6572	29.3%
2024	0.1923	0.4402	0.6325	30.4%
2025	0.1923	0.4704	0.6627	29.0%

QUESTIONS
