CITY OF NOVI
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CITY of NOVI CITY COUNCIL

Agenda Item 4
March 11, 2013

SUBJECT: Approval of Resolution adopting a formal Debt Management Policy to set parameters for future issuance of debt to ensure responsible use of debt issuance.

SUBMITTING DEPARTMENT: City Manager/Finance

CITY MANAGER APPROVAL:

BACKGROUND INFORMATION:

A formal Debt Management Policy was developed in response to City Council's long-term goal to develop a debt policy, as suggested by Standard & Poor's (S&P) 2012 credit review of the City of Novi. S&P lists developing and following a formal Debt Management Policy as one of the top ten management characteristics of highly-rated U.S. public finance issuers.

The recommended policy provides a basis for consistent public policy decisions in the future by determining how and when project can best be financed by debt issuance. The policy sets forth parameters for effective ongoing debt management and the evaluation of debt issuance. In addition, this Debt Management Policy establishes the following targeted limits on the City's borrowing power, beyond the statutory limits:

1. Debt service payments shall not exceed 20% of the combined operating and debt-service fund expenditures;
2. Net bonded indebtedness incurred for all public purposes per capita should not exceed $2,500;
3. Net bonded indebtedness incurred for all public purposes as a percentage of taxable value should not exceed 10%.

The type of debt limits put forth in this Policy found to be used by other highly-rated public entities. The three measures above should be taken as a guide as a whole, not absolutes for each individual.

Attached is a resolution for the City Council's consideration establishing the City of Novi Debt Management Policy. Also attached for reference are the debt service payments for Fiscal year 2013 and Fiscal Year 2014. If adopted, the Debt Management Policy would join the other financial planning policies already recognized and included in the City budget document.

RECOMMENDED ACTION: Approval of Resolution adopting a formal Debt Management Policy to set parameters for future issuance of debt to ensure responsible use of debt issuance.

	1	2	Y	N
Mayor Gatt				
Mayor Pro Tem Staudt				
Council Member Casey				
Council Member Fischer				

	1	2	Y	N
Council Member Margolis				
Council Member Mutch				
Council Member Wrobel				

Debt Management Policy
CITY of NOVI, MICHIGAN * FEBRUARY 20, 2013

A. Introductory Section

1. Issuing debt for public projects is an acceptable and important means of financing for capital projects. Such a means of financing provides for the beneficiaries of investments to pay for these improvements over time in a structured way. This Debt Management Policy was established by the City of Novi to accomplish the following:

   i. To set forth parameters for the issuance of debt in order to prevent exceeding acceptable levels of indebtedness and to ensure prudent use of debt issuance;
   ii. To provide evidence to investors, rating agencies and the general public of the City's commitment to sound financial management;
   iii. To establish consistency and continuity for public policy development and help guide City decision makers;
   iv. To set clear guidelines for debt management and evaluation.

   The City Council recognizes that debt decisions are not subject to absolute rules, and that each such decision requires a deliberate consideration of all relevant factors. This policy is thus intended as a general framework for such decision making. The debt policy is in addition to, and should be kept in context of, the City's other financial policies for investments, accounting and auditing, purchasing, grants, etc.

B. General Policies

1. The City will conduct its debt management functions in a manner designed to maintain or enhance its existing general obligation and utility revenue credit ratings with Moody's Investor Services and Standard & Poor's Corporation. The City will maintain a sound relationship will all credit rating agencies and will keep them informed about current capital plans.

2. Debt issuance is a proper and acceptable means by which the City finances certain long-range projects

3. The following will act as decision criteria when considering debt issuance:

i. Debt shall be primarily issued to finance capital projects with a relatively long life (10+ years);
ii. Pay-as-you-go financing shall be the preferred method of financing other capital projects. Debt issuance is to be considered when public policy and the equitable and efficient use of limited resources favors debt over contemporary financing;
iii. The City will use the basic tests of efficiency and equity when evaluating the use of debt issuance for capital need.

C. Authorization for Municipal Borrowing

1. Subject to the applicable provisions of statute and the Constitution, the Charter authorizes the City to borrow money and issue bonds and other evidence of indebtedness therefor, for any purpose within the scope of powers vested in the City. Such bonds or other evidences of indebtedness may include, but are not limited to the following types:

    i. General obligation bonds;
    ii. Notes issued in anticipation of the collection of taxes of the current fiscal year;
    iii. Emergency bonds, due in not more than five (5) years;
    iv. Bonds issued in anticipation of special assessments;
    v. Mortgage bonds for acquiring, owning, purchasing, constructing, or operating any public utility;
    vi. Bonds issued at a rate of interest not to exceed the maximum rate permitted by law to refund money advanced or paid on special assessments;
    vii. Revenue bonds, secured only by revenues from a public improvement;
    viii. Other notes and bonds which may from time to time be authorized by statute.

2. The City does not have the power to authorize any issue of bonds unless approved by a majority of the electors voting thereon at a general or special election, except the following bonds:

    i. Special assessment bonds;
    ii. Bonds for the City portion of local improvements, not to exceed 40% of the cost of such improvement;
    iii. Refunding bonds;
    iv. Bonds for the relief from fire, flood, tornado, riot and disorder, public crisis or calamity or for payment of judgments;
    v. Revenue bonds;
    vi. Other bonds excluded by statute from the requirement of such vote.

3. In accordance with MCL 141.2517 the Novi City Council will publish an authorizing resolution in a newspaper that has general circulation for each debt issuance stipulating the following:

    i. The maximum amount of municipal securities to be issued;
    ii. The purpose of the municipal securities;
    iii. The source of payment;
    iv. The right of referendum on the issuance of municipal securities;
    v. Any other information that the City determines necessary to inform the electors of the nature of the issue.

D. Capital Improvement Plan (CIP)

1. A Capital Improvement Plan will be prepared, submitted, and approved annually by the Planning Commission, as required by the Michigan Planning Enabling Act (Act 33 of 2008).

2. All capital improvement projects funded by debt issuance will be included in the City's Capital Improvement Plan.

    i. The capital improvement program shall consist of a six (6) year priority listing of long term capital projects;
    ii. The listing will include a financing plan that finances all projects in the first five (5) years of the plan, noting current revenue or debt funding, and, if debt funded, the appropriate repayment revenue source;
    iii. The finance plan will be in accordance with all debt management policies contained herein.

E. Professional Assistance

1. The City retains a number of outside professionals to assist in the bond issuance process. These professionals are brought in to ensure compliance with the bond issuance process, to ensure obligations are issued in the most effective manner and to reduce overall financing costs associated with bond issuance.

2. It will be standard procedure for the City to use the Request for Proposal Process (RFP). The City will consider not only the bid prices but also levels of expertise, experience and references from past clients as well. The RFP process should encourage the following practices;

    i. Competition among bidders;
    ii. Objectivity by the City;
    iii. Clear and rational selection criteria;
    iv. Independence from the political process;
    v. Result in a cost-effective transaction;
    vi. Result in the selection of the most qualified firm.

3. When appropriate, the City will seek assistance professional assistance. Each service listed below must be provided by a separate firm.

    i. Bond Counsel

        1. A law firm specializing in municipal law whose expertise will enable it to provide valuable opinions concerning the validity and tax status of a bond issue;
        2. The City may select a Bond Counsel for a specific issue or select a firm to act as Bond Counsel for a specified amount of time.

    ii. Municipal Advisor

        1. A consultant to the City on matters related to the issuance of securities;
        2. The City may select a Municipal Advisor for a specific issue or select a firm to act as Municipal Advisor for a specified amount of time;
        3. The Municipal Advisor must be registered with the Municipal Securities Rulemaking Board (MSRB).

    iii. The Underwriter

        1. The municipal securities dealer that purchases a new issue of municipal securities for resale to investors;
        2. The Underwriter may acquire the securities either through negotiation with the City of by award on the basis of competitive sale.

F. Method of Sale

1. The City of Novi will issue all new bonds through competitive sale. If advised by the Municipal Advisor, negotiated sales on new bond issues will be permitted only if there is evidence of volatile market conditions, complex security features, or another overriding factor.

2. The following process must be followed for each type of bond sale:

    i. *Competitive sale:* Prior to the sale date, the Finance Director, Bond Counsel and, when necessary, Municipal Advisor will develop a Notice of Sale, a bid form and disclosure materials. The City will publish a notice of sale at least 7 days before the date set for the sale;
    ii. *Negotiated sale:* In a negotiated sale the City, with the advice of the Municipal Advisor, selects the Underwriter it wishes to work with in

advance of the planned sale date (the City reserves the right to select the Underwriter through a competitive request-for-proposal process). The Underwriter then will be a participant in the structuring of the issue and in the preparation of disclosure materials. The financing team (made up of the Finance Director, Municipal Advisor, and Underwriter) will attempt to identify a sale date that offers the City the most stable and favorable interest rate environment. The negotiated sale process enables the City to easily postpone the pricing and reschedule the sale for a later date if market conditions become unsettled or if other unfavorable developments occur;

iii. In accordance with MCL 141.2517, if the City of Novi determines to sell a municipal security at a negotiated sale, the City Council will expressly state the method and reasons for choosing a negotiated sale instead of a competitive sale in the resolution or ordinance authorizing the issuance or sale of the municipal security.

G. Sound Financing of Debt

1. The following conditions are to act as criterion for debt financing of improvements and equipment:

    i. When the City finances capital projects, it will repay them within a period not to exceed the expected useful life of the project;
    ii. When possible, the City will use self-supporting financing, such as special assessment, revenue, and tax increment bonds;
    iii. General obligation debt is not to be used to finance enterprise activities;
    iv. Debt issuance shall be structured as tax-exempt unless the constraints imposed justify the increased cost of a taxable transaction or non-tax-exempt status is required by statute;
    v. The City will refrain from financing debt using derivatives.

2. Use of variable-rate debt:

    i. Use of fixed rate debt may be used with all types of debt structure;
    ii. Variable rate debt may be used when the following criteria are met:

        1. A risk assessment and a determination of the operational requirements to monitor and maintain the proposed variable rate debt structure will be made in determining whether the potential benefits outweigh the potential costs (including in the worst-case scenario) in using this structure. A stress test looking at performance of the debt instrument at various interest rates and in the situation where the instrument fails (for example, in remarketing) will be performed. The results of the assessment will be presented to City Council at a public meeting and made available for public inspection;

3. The total amount of such special assessment bonds issued under Section 10.1(d) of the Charter that are a general obligation of the City will at no time, by reason of future issues other than issues of refunding bonds, exceed the statutory limitations thereon, nor will such bonds be issued in any calendar year in excess of the amount permitted to be issued by statute unless authorized by a vote of the electors in the manner provided by statute.

4. Refunding or repayment of outstanding debt may occur when the possibility of interest cost reduction exists, or when the City wishes to restructure its debt service and/or amend its contractual bond requirements.

H. Debt Limits

1. The Charter provides the following legal debt limit: the net bonded indebtedness incurred for all public purposes shall not at any time exceed ten percent (10%) of the assessed value of all the real and personal property in the City subject to taxation as shown by the last preceding assessment roll of the City; provided that in computing such net bonded indebtedness there shall be excluded money borrowed of the following descriptions:

   i. Tax-anticipation notes;
   ii. Special assessment bonds;
   iii. Mortgage bonds;
   iv. Revenue bonds;
   v. Any other obligation excluded by statute or Constitution from such limitations;
   vi. The resources from the sinking fund pledged to retirement of any outstanding bonds shall also be deducted from the amount of bonded indebtedness.

2. The City also establishes the following debt limits through this Debt Management Policy to maintain responsible debt levels while not putting undo restrictions on the City's ability to issue debt;

   i. Debt service payments shall not exceed 20% of the combined operating and debt-service fund expenditures;
   ii. Net bonded indebtedness incurred for all public purposes per capita should not exceed $2,500;
   iii. Net bonded indebtedness incurred for all public purposes as a percentage of taxable value should not exceed 10%.

3. MCL 141.2517 provides the following debt limit:

i. Municipal securities issued for capital improvement purposes shall not exceed 5% of the state equalized valuation of the property assessed in Novi.

4. In addition to adhering to legal and policy determined debt limits, the City will also monitor any public authority capable of debt issuance within our jurisdiction. These authorities include, but are not limited to the following;

   i. Novi School District
   ii. Northville School District
   iii. Walled Lake School District
   iv. South Lyon School District
   v. Oakland County at Large
   vi. Oakland Intermediate SID
   vii. Wayne Intermediate SID
   viii. Oakland Community College
   ix. Schoolcraft Community College

I. Debt Management

1. Every bond issued by the City will contain on its face a statement specifying the purpose for which the same is issued. No officer of the City will sign or issue any such bond unless such statement is set forth on the face of the same or to use such bonds or the proceeds from the sale thereof for any purpose other than that mentioned on the face of such bond.

2. Bonds and all other evidence of indebtedness issued by the City will be signed by the Mayor and the City Clerk under the seal of the City. The coupons evidencing the interest upon said bonds may be executed with the facsimile signatures of the Mayor and the Clerk. A complete, detailed record of all bonds will be kept by the Director of Finance. Upon payment of any bond or other evidence of indebtedness, the same will be cancelled.

J. Bond Market Disclosure

1. The City of Novi will covenant in its bond documents to provide bondholders certain annual financial information. The provision of the information is done through qualified information repositories. The information will be presented in the City's Comprehensive Annual Financial Report (CAFR).

2. In addition to annual financial information, the City is required to covenant in the bond documents that it will provide notice of the following "material events" to the information repositories, with respect to the City's bonds:

   i. Principal and interest payment delinquencies;
   ii. Non-payment related defaults;

iii. Unscheduled draws on debt service reserves reflecting financial difficulties;
iv. Unscheduled draws on credit enhancements reflecting financial difficulties;
v. Substitution of credit or liquidity providers, or their failure to perform;
vi. Adverse tax opinions or events affecting the tax-exempt status of the City's bonds;
vii. Modifications to rights of the owners of City bonds or bond calls; or
viii. Rating changes.

3. The City is further required to covenant that it will provide notice in a timely manner if it fails to comply with its disclosure undertakings.

References

Best Practices Related to Debt Management and Debt Issuance, Government Financial Strategies, GFOA, 2012

Debt Management Policy, City of Brighton, 2012

Debt Management and Fiscal Policy, City of Olathe, 2010

Financial Management Policies, City of Fort Collins

Novi, Michigan; General Obligation; General Obligation Equivalent Security, Standard & Poor's, 2012

The Top 10 Management Characteristics of Highly Rated U.S. Public Finance Issuers, Standard & Poor's, 2012

Debt Service Policy
Governmental Funds - General Obligation Bonds Only
Updated 2.21.13

	Fiscal Year 2013			Fiscal Year 2014		
Debt Description	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2010 GO Unlimited Tax Bonds	$ 940,000	$ 122,813	$ 1,062,813	$ 940,000	$ 78,022	$ 1,018,022
2002 GO Limited Tax Bonds-Sandstone	275,000	7,150	282,150	-	-	-
2002 GO Street and Refunding Debt	1,055,000	192,938	1,247,938	595,000	154,522	749,522
2008 GO Unlimited Tax Library Bonds	500,000	642,000	1,784,000	500,000	624,360	1,766,360
2003 GO Unlim Tax Refunding Bonds	985,000	17,963	1,002,963	-	-	-
	$ 3,755,000	$ 982,863	$ 5,379,863	$ 2,035,000	$ 856,904	$ 3,533,904
Governmental Total Expenditures (Excluding Transfers)			54,175,898			52,890,786
Debt service as a percentage of total expenditures			10%			7%