Text File

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Committee: Committee on Finance and Law **Status:** Passed Finally

Ordinance amending the Pittsburgh Code at Title Two: Fiscal, Article I: Administration, Chapter 202: Debt Management Policy, so as to provide further guidance on the debt management financial controls which allow the City of Pittsburgh to efficiently issue debt while maintaining a responsible debt service level.
(Briefing Held 12-4-17)

The Council of the City of Pittsburgh hereby enacts as follows:

Section 1.

The Pittsburgh Code is hereby amended at Title Two: Fiscal, Article I: Administration, Chapter 202: Debt Management Policy as follows:

CHAPTER 202: - DEBT MANAGEMENT POLICY

§ 202.01 - DEFINITIONS.

(a) ***BAN*** - Bond Anticipation Notes.

(b) ***CAPITAL PROJECT*** - any project funded by public monies in partial or whole, or proposed to be funded by public monies in partial or whole, to build, restore, retain, rehabilitate, purchase or repurchase any equipment, property, facility, infrastructure, vehicle, hardware for information technology, park facility, or building and otherwise consistent with LGUDA.

(c) ***EMMA*** - Electronic Municipal Market Access.

(d) ***GFOA*** - Government Finance Officers Association.

(e) ***LGUDA*** - Local Government Unit Debt Act, 53 Pa. C.S. § 8001 et seq.

(f) ***MSRB*** - Municipal Securities Rulemaking Board.

(g) ***SEC*** - Federal Securities and Exchange Commission.

(h) ***TIC*** - True Interest Cost.

(i) ***TRAN*** - Tax or Revenue Anticipation Notes.

(j) ***URA*** - The Urban Redevelopment Authority of the City of Pittsburgh.

§ 202.02 - [Financial] <u>MUNICIPAL ADVISOR</u>.

(a) City Council shall have the ability to enter into a contract with a [certified Financial Advisor] <u>SEC</u>

registered municipal advisor when needed consistent with existing authority, who shall provide professional assistance and analysis of any prospective debt issue.

(b) The Council [Financial] Municipal Advisor shall not be associated with, or be a beneficiary in any manner, regarding the issuance that is being analyzed and shall comply with all applicable law.

§ 202.03 - AUTHORITY, SCOPE AND OBJECTIVES.

(a) *Introduction.*

1. The City of Pittsburgh (the City) shall have the ability to issue or guarantee public debt appropriately and advantageously and in response to ongoing capital needs of the City and its agencies.
2. The City recognizes that the foundation of a well-managed debt program is a comprehensive debt management policy. The following policy exists to establish parameters and provide guidance governing the issuance, management, evaluation and reporting of debt obligations.

(b) *Authority.*

1. The City's authority to issue debt comes from the City's Home Rule Charter.
2. All debt shall be issued in accordance with all applicable federal, state and city requirements governing the issuance of public debt.

(c) *Debt Management Objectives.*

1. [To ensure that financial decisions made today by the City do not have an adverse impact on current and future citizens] To maintain cost-effective access to the capital markets through prudent financial policies.
2. [To maintain or improve the City's credit ratings, lowering the costs of borrowing through sound debt issuance practices] To maintain a moderate debt burden and debt service payments which align with effective planning and coordination with City Departments.
3. [To maintain financial flexibility for current and future citizens] The City shall achieve the highest possible credit ratings within the context of the City’s capital needs and financing capabilities.
4. To ensure that financial decisions made by the City presently, do not have an adverse impact on current and future citizens.

§ 202.04 - DEBT MANAGEMENT RESPONSIBILITY.

The Finance Director is responsible for the management of the City's debt and the compliance with this policy.

§ 202.05 - DEBT COVERED BY THIS POLICY.

This policy is applicable to all tax supported bonds issued directly by the City or guaranteed by the City's tax base. The use of the term "City" in this policy shall include the City and its agencies whose debt is guaranteed by the City's tax base. City component units are encouraged to develop or amend a debt policy generally consistent with this Debt Management Policy.

§ 202.06 - PURPOSE OF DEBT.

(a) Debt to fund capital projects should only be issued if the capital projects are authorized and included in the City's Five-Year Capital Program, approved by City Council, and comply with the City's Capital definitions and policies.

(b) The City will not use long-term debt to finance current operations.

(c) [TRANs are short term notes secured by a pledge of taxes and other General Fund revenues. The City may issue tax or revenue anticipation notes (TRANs) to manage timing differences between its tax and revenue receipts and expenditures in a fiscal year. TRANs are limited to the maximum cash flow deficit requirements for the current fiscal year] The City will issue debt to fund capital needs and economic improvement projects and refinance existing debt. Debt will be used to fund eligible purposes only if it is the most cost-effective means available to the City or to meet certain unique operational/strategic objectives of the City.

§ 202.07 - DEBT AFFORDABILITY.

(a) The City will limit its tax supported debt service as a percent of General Fund including debt service expenditures to [seventeen (17.0) percent. With the understanding that as of the date of adoption of this Debt Management Policy, the City exceeds this limit, the City has a ten-year goal of reducing this ratio to twelve (12.0) percent] twelve (12.0) percent. With the understanding that as of the date of adoption of this Debt Management Policy, the City exceeds this limit, the City has a goal of reducing this ration to twelve (12.0) percent by 2019.

(b) For the purpose of this policy, tax-supported debt includes all tax supported bonds issued directly by the City or guaranteed by the City's tax base.

(c) The City will limit its tax supported debt burden principal [to five (5) percent of full taxable assessed value. The City has a ten-year goal to reduce this debt burden to four (4) percent] amount to three and a half (3.5) percent of full taxable assessed value.

(d) The City's debt will be in compliance with the limitations of the Local Government Unit Debt Act (LGUDA).

(e) The City has the goal of funding at least fifteen 15% percent [of capital expenditures from pay-as-you-go cash, as measured on a five-year basis] of capital expenditures not supported by grants or intergovernmental aid from pay-as-you-go cash, as measured on a five-year basis.

§ 202.08 - GENERAL OBLIGATION DEBT GUARANTEES.

The City will limit contingent exposure to debt service payments for other entities. Any requests for a City guarantee will be analyzed for the benefits to the City; risk of actual financial exposure; and impact on the City's debt burden and credit ratings. Any such commitments must be approved by City Council.

§ 202.09 - REFUNDINGS AND RESTRUCTURING.

(a) The City may refund outstanding debt if the present value savings are at least three (3) percent of the principal amount of the refunded debt, net of costs of issuance. For each maturity being refunded, the present value savings should be at least one (1) percent. However, if the aggregate three (3) percent threshold is met, inclusion of each maturity will not be unreasonably withheld. Generally, the final maturity of a refunding bond issue should not exceed the original final maturity or the Weighted Average Maturity (WAM) of the bonds being refunded, any exception to this guidance should be disclosed in the authorizing legislation.

(b) All refunding bond opportunities will be carefully considered to produce a favorable financial impact for the City. Specific threshold refunding savings levels, expressed on an aggregate present value basis, will be set forth in legislation authorizing the refunding bonds.

(c) A refunding or restructuring of existing debt may be considered, without meeting the threshold noted above in 202.09(a) and (b), wherein the City is interested in eliminating a restrictive or burdensome covenant and therein provides a financial benefit to the City.

§ 202.10 - TYPES OF DEBT.

(a) The City expects to issue most of its debt for capital purposes in the form of long term fixed rate bonds. Debt structuring practices shall take into account the factors identified in S202.11.

(b) Variable rate debt is limited to fifteen (15) percent of total debt principal to which this policy is applicable. Variable rate debt [may be in the form of variable rate bonds or notes or tax exempt commercial paper] or short-term interim debt financing may be used to finance projects or portions of projects for which the City plans to issue long-term debt. The City may elect to apply short-term financing as a form of interim financing. Short-term financing may include the issuance of short maturity bank loans, securities, or floating rate bonds or notes. Examples of short-term financing structures which the City may utilize include, but may not be limited to the following:

[(c)] 1. Bond Anticipation Notes (BANs) will be utilized [undertaken] only if the transaction costs plus interest of the debt are less than the cost of internal financing, or available cash is insufficient to meet working short-term capital requirements. Generally, BANs will have a final maturity of two-years or less and may be secured by the City’s limited tax obligation pledge.

2. Other Short-Term Obligations includes demand obligations, index notes, and commercial paper. These types of securities often will contain "put" features, meaning that investors may have a right to require an issuer to repurchase the security from the holder; often causing the issuer to maintain either a commercial bank facility available cash resources to satisfy credit requirements of holders concerned about the ability of an issuer to adequately remarket the security. Maturity of the various forms of security can range from very short in the case of commercial paper (less than 270 days) to thirty-years in the case of demand obligations. Demand obligations and index notes are sometimes structured as long-term obligations with interest rate reset featuring from one day to multiple years.

3. Commercial Bank Line of Credit is often established without a termination date for the facility itself, allows a borrower to draw from a bank facility and restore the draw within a given period of time plus interest. In the alternate, draws may be able to be structured to be repaid over a period of years at a given interest rate. These facilities generally require ongoing fees paid to the provider.

4. TRANs are short-term notes secured by a pledge of taxes and other General Fund revenues. The City may issue tax or revenue anticipation notes (TRANs) to manage timing differences between its tax and revenue receipts and expenditures in a fiscal year. TRANs are limited to the maximum cash flow deficit requirements for the current fiscal year.

[(d)] 5. The City may not issue debt with derivative products.

§ 202.11 - DEBT STRUCTURE.

(a) Principal should generally be amortized to achieve annual debt service consistent with the provisions of Section 202.07 "Debt Affordability," [with a goal of level annual debt service] and will generally be amortized in a manner such that not less than sixty (60) percent of the aggregate outstanding tax supported debt will retired within ten (10) years.

1. Size - Based on capital project needs.

2. Term - The City maintains a preference for the shortest possible average maturity considering the project type and availability of annual payment resources.

3. Amortization of Bonds - The City generally prefers level principal payments for general obligation bonds unless a specific revenue has been identified for GO or other bonds. However, the City may consider other amortization structures as appropriate and permitted under Pennsylvania Law.

4. Interest rate - To enhance the effectiveness of annual capital budgeting, fixed interest rate structures are the City's preference for long useful life, infrastructure and buildings.

5. Call Provisions - The Financing Team will recommend to the Director of Finance the use of a call option on a case-by-case basis. The City's preference is for optional call provisions when appropriate.

6. Level Principal amortizes the debt in such a manner as to make the Principal payments remain relatively constant over the life of the bonds resulting in declining annual debt service as the annual amount of interest payments decline. If level principle is not used an explanation must be disclosed in the legislation and to Council prior to introduction.

7. Level Debt Service creates a debt service schedule in which the combined annual amount of principal and interest payments remains relatively constant over the life of the issued bonds. If level debt service is not used an explanation must be disclosed in the legislation and to Council

prior to introduction.

[(b)] [Principal amortization should generally be structured to achieve a minimum target of fifty (50) percent of all outstanding principal scheduled to be repaid within the first half of the life of the maturity of the debt issue.]

(b) The average life of debt should be no greater than the projected average life of the assets being financed. The final maturity will generally not exceed twenty (20) years, unless a longer lifespan can clearly be demonstrated, e.g., funding for buildings or bridges. Under no circumstance shall maturities exceed thirty (30) years.

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(c) For each bond issue, the City will evaluate options and prices for credit enhancement in order to improve the marketability of the City's debt obligation. The City may utilize credit enhancement if it results in net overall savings and acceptance terms. Types of credit enhancement include letters of credit, bond issuance, cash or bond funded reserves, or other public or private credit enhancements.

§ 202.12 - FINANCIAL DISCLOSURE.

(a) The City is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, other levels of government and the general public to share clear, comprehensible and accurate financial information.

(b) The City is committed to meeting secondary disclosure requirements on a timely and comprehensive basis. It will comply with Securities and Exchange Commission (SEC) Rule 15c2-12 which requires an annual filing with the MSRB's (Municipal Securities Rulemaking Board) Electronic Municipal Market Access (EMMA), which provides financial information and operating data relevant to investors in City obligations. In addition, the City will file material event notices when required under Rule 15c2-12.The City may employ a Continuing Disclosure and Dissemination Agent to assist in the preparation and filing of all Continuing Disclosure Requirements.

§ 202.13 - ARBITRAGE REQUIREMENTS.

The City will comply with all of its tax certificates for tax exempt financings by monitoring the arbitrage earnings on bond proceeds on an interim basis and by rebating all positive arbitrage when due, pursuant to Internal Revenue Code Section 148. The City may employ an arbitrage consultant to prepare these calculations.

§ 202.14 - PERIODIC POLICY REVIEW.

At least once every three (3) years, the City will review this policy and recommend changes, as appropriate, to City Council for approval.

§ 202.15 - METHOD OF SALE.

[The City will choose the method of sale, as between competitive and negotiated, that is most appropriate given the current circumstances of the City's finances and the nature of the issuance. Considerations will include the complexity of the issue requiring specialized expertise, volatile or uncertain credit markets or the City's credit ratings or outlook.]

The Finance Director shall review each transaction on a case-by-case basis to determine the most appropriate method sale.

(a) Competitive Sale - In a competitive sale, binds for the purchase of the bonds are opened at a specified place and time and are awarded to the underwriter (or syndicate) whose conforming bid represents the lowest true interest cost to the City (TIC). The City may take bids in person, by facsimile, or by electronic means.

(1) Bond sales shall be advertised as broadly as possible, including advertising in an industry newspaper. The municipal advisor(s) for each transaction shall undertake to inform prospective bidders and provide financial disclosure to investors as relevant.

(2) Terms of the bonds shall be terminated as late as possible and ideally until at least 1:00 p.m. Pacific Time the day prior to the day bids are to be received.

(3) Bond sales shall be cancelable at any time prior to the time bids are to be received.

(4) Upon award to the bidder whose conforming bid represents the lowest true interest cost, the City may restructure the bonds in accordance with the Official Notice of Sale.

(5) The City shall reserve the unfettered right to reject all bids or waive bid irregularities.

(6) The Finance Director, or his/her designee shall award any bonds sold via competitive sale.

(b) Negotiated Sale - In a negotiated sale, the City chooses the initial buyer of the bonds in advance of the sale date. The initial buyer is usually an investment banking firm, or a syndicate of investment banking firms interested in reoffering the bonds to investors through an underwriting process. This type of sale allows the City to discuss different financing techniques with the underwriter in advance of the sale date, and is particularly appropriate for complex bond structures, difficult credit situations (such as refunding's).

(c) Private Placement - Also referred to as a direct placement, private placement is a variation of a negotiated sale. Instead of retaining the services of an investment banking firm to underwrite the securities, the City will sell the bonds directly to a limited number of investors. The City may use a placement agent to assist it in identifying likely investors.

§ 202.16 - PROFESSIONALS.

The City will apply GFOA best practices in the use and selection of professionals involved in the bond issuance process, including [Financial Advisor and bond counsel] Municipal Advisor and Bond Counsel.

§ 202.17 - COMPLIANCE.

(a) As a part of each budget request, debt or lease issuance approval, the City will disclose whether it is currently in compliance with this policy and if the requested action(s) or debt issuance will likely result in noncompliance with the policy.

(b) Any exceptions to this policy approved by City Council shall be included in Council's legislation authorizing debt issuance.

§ 202.18 - INVESTMENT OF BOND PROCEEDS.

[Bond] Debt proceeds will be invested in accordance with the City's investment policy. The City will develop a strategy for investing proceeds to minimize credit risk, ensure regulatory compliance, and meet liquidity needs of the [bond issue] construction/project drawdown schedule. The City will seek to maximize earnings on these funds, although safety and liquidity will be the City's first priorities. A responsible senior official in the Finance Department will be designated to ensure compliance.

§ 202.19 - ETHICS AND PRUDENCE.

(a) Debt shall be issued with judgment and care under circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs.

(b) Officers and employees involved in the debt issuance process shall refrain from personal business activity that could conflict with proper execution of the debt program, or which could impair their ability to make impartial debt issuance decisions.

(c) Employees and debt issuance officials shall [disclose any material financial interest in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial positions that could be related to the City's debt portfolio] take all necessary steps to avoid any conflicts of interest with any financial institutions that conduct business within this jurisdiction.