



# City of Galveston

## FINANCE DEPARTMENT

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To: Brian Maxwell, City Manager  
Mayor and City Council

From: Michael W. Loftin  
Assistant City Manager - Finance

Date: April 25, 2019

Subject: A motion to approve a Debt Management Policy for the City of Galveston and its component units.

### **BACKGROUND**

1. The City of Galveston is adopting best practices for local government finance to provide assurances to Galveston taxpayers, investors and rating agencies that Galveston's finances are being handled so as to minimize risk to publicly held assets.
2. The Government Finance Officers Association (GFOA) has published a best practice paper on Debt Management policies (see attachment).

### **CURRENT SITUATION**

1. The City of Galveston has been issuing and managing its outstanding debt and related bond proceeds in accordance with state and federal law and best practice, but has no formal debt management policy in place at the present time.
2. The City's financial management staff has developed a debt management policy that addresses the various areas of debt management as discussed in the GFOA best practice white paper.
3. The policy is primarily intended to protect the City from exposure to the risk of inappropriate or inadequately secured debt issuance by the City itself or its component units.
4. Component units include organizations whose board is selected and appointed by City Council and whose bond issues and/or expenditures of those bond sale proceeds must be countersigned or otherwise approved by City Council or city officials acting under the authority of the City Council. (See page two of the attached policy statement.)





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### ISSUES

1. Taxes levied and collected on a citywide basis are typically pledged when bonds are sold to provide the source of repayment to bond holders. In such cases, the City Council is normally required to authorize the bond sale directly or indirectly. These policy statements apply to bond sales of this type.
2. Certain bond sales may involve a pledge of non-tax revenue as a primary means of repayment and are considered self-supporting for this reason. However, these bonds will also normally involve an underlying pledge of property tax or other City revenue to assure bond buyers that the City backs the bonds. In such cases, the City's underlying pledge stands as a means of extending the City's credit and bond rating to ensure the bond sale is rated more favorably, gaining lower interest rates and saving local dollars. These policy statements also apply to bond sales of this type.
3. Component units may be authorized to sell bonds in such a way as to segregate the City itself from exposure to having to underwrite or otherwise act as guarantor on the bonds. Typically these type of sales result in some benefit to the community and may add value to City owned assets. For this reason, there is added risk and exposure of the City and its taxpayers to having to pay the debt service in question, and these policy statements apply to bond sales of this type.
4. The City Council, by passage of the policy, indicates its willingness to force restrictions on itself to benefit the taxpayers. Nothing less can be expected of its component units, requiring they meet the same standards. Quoting from page two of the policy:

*"This policy is applicable to the City and/or its component units including but not limited to:*

- a. The City of Galveston,*
- b. The Park Board,*
- c. The Industrial Development Corporation,*
- d. The Galveston Wharves,*
- e. The Galveston Port Facilities Corporation,*
- f. The Galveston Housing Finance Corporation,*
- g. The Galveston Property Finance Corporation, and, where applicable*
- h. The Galveston Island Redevelopment Authority, Tax Increment Revitalization Zones, and Public Improvement Districts."*





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5. The policy requires:
  - a. Adherence to state and federal law as well as the city charter;
  - b. Bonds be justified on specific long term financial planning and specific project definitions to justify the bond sale amount and the period used to retire the bonds;
  - c. All structures allowed by law to be used prudently and in the case of variable rate debt, to adhere to the standards set in the policy for moderation as a part of a larger bond portfolio;
  - d. That professional service firms retained to complete the sale will be selected through competitive processes;
  - e. That bond proceeds will be invested, assigned, expended and reported as a part of the City's investment pool and in accordance with the city charter; and
  - f. That the City maintain an emergency line of credit as it has for over a decade as provided by state law.

### **RECOMMENDATION**

Approve the recommended debt management policy.

