



CITY OF
MODESTO
CALIFORNIA

DEBT MANAGEMENT POLICY UPDATES

Finance Committee, May 19, 2025 – Item#10
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BACKGROUND

- The purpose of this Policy is to organize and formalize debt issuance-related policies and procedures for the City.
- The primary objectives of the City's debt and financing-related activities are to maintain cost-effective access to the capital markets through the following:
 - Prudent yet flexible policies.
 - Moderate debt principal and debt service payments through effective planning and project cash management.
 - Achieve the lowest cost of borrowing.
 - Achieve the highest practical credit ratings.



DEBT POLICY

- Edits made to Section II. DEBT POLICY OBJECTIVE
 - Language was added to expand the **objectives** of the debt policy.
 - Establishing clear criteria for decision making with regards to debt issuance, debt structuring and debt management
 - Foster consistency in debt management practices over time with staff and Council turnover
 - Ensure industry best practices are adopted and maintained



DEBT FINANCING

- Edits made to Section VII. A. PURPOSE OF DEBT
 - Language was added to include **Interim Financing** as a purpose of issuing debt.
 - Interim financing in the form of commercial paper, revolving line of credit, or short-term debt may be issued to bridge cashflow needs. It is used to defer the issuance of more expensive long-term debt or provide interim funds while waiting for reimbursement from other sources such as grants.



TERMS AND CONDITIONS OF BONDS

- Edits made to Section VIII. C. Lien Levels
 - Language was added to describe potential uses of a lower lien
 - The City may use lower liens for specific needs such as interim financing or commercial paper.



TERMS AND CONDITIONS OF BONDS

- Edits made to Section VIII. F. Call Provisions, and G. Original Issue Discount and Deep Discount Bonds
 - Language was added to enhance discussion on bonds terms that impact **future optionality and ability to refund for savings**
 - Removed - *If the City were to issue taxable bonds, the City will carefully consider the financial impacts of a 10-year call, a make-whole call, or non-callable debt.*
 - When evaluating the coupon structure for a bond issuance, the City should factor in investor preference, the yield-to-call, the yield-to-maturity and the potential to refund the bonds for debt service savings in the future.



REFINANCING OUTSTANDING DEBT

- Edits made to X. A. Debt Service Savings, and B. Restructuring
 - Language was added to clarify the internal process for debt restructuring
 - The decision to defease debt that is not currently callable or to take savings on an upfront or deferred basis must be expressly described in the staff report presented to the City Council.
 - The decision to restructure debt must be expressly described in the staff report presented to the City Council.



CREDIT ENHANCEMENTS

- Edits made to XI. A. Bond Insurance
 - Language was added to clarify that bonds can be partially insured.
 - Bond insurance may be purchased for the entire amount of an issue or for specific maturities based on a recommendation from the financial advisor or senior underwriter.



UNDERWRITER SELECTION

- Edits made to XIV. E. Underwriter's Discount
 - Language was added to clarify the City's objective when agreeing to fees associated with a bond issuance
 - The City will strive to reasonably minimize the underwriter's takedown by means of a competitive selection process like an RFP. The goal of low takedowns should be balanced with adequately incentivizing the banks to market/sell the bonds or underwrite without rate adjustments, if required.



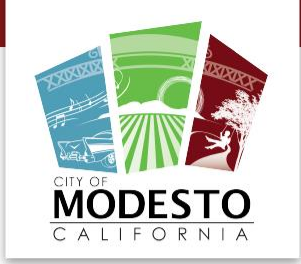
OTHER CHANGES

- Competitive Sale should be used when “*Transaction size is modest, generally larger than \$10 million but lower than \$100 million*”.
- Private placements may be well-suited for weaker credits where a rating cannot be obtained.
- The Director of Finance shall monitor and comply with periodic data requests from rating analysts for their rating surveillance process.
- Municipal Advisor services will include assisting with debt related negotiations



STAFF RECOMMENDATION

- Motion accepting the updates to the City's Debt Management Policy and forwarding to Council for approval.



QUESTIONS?