

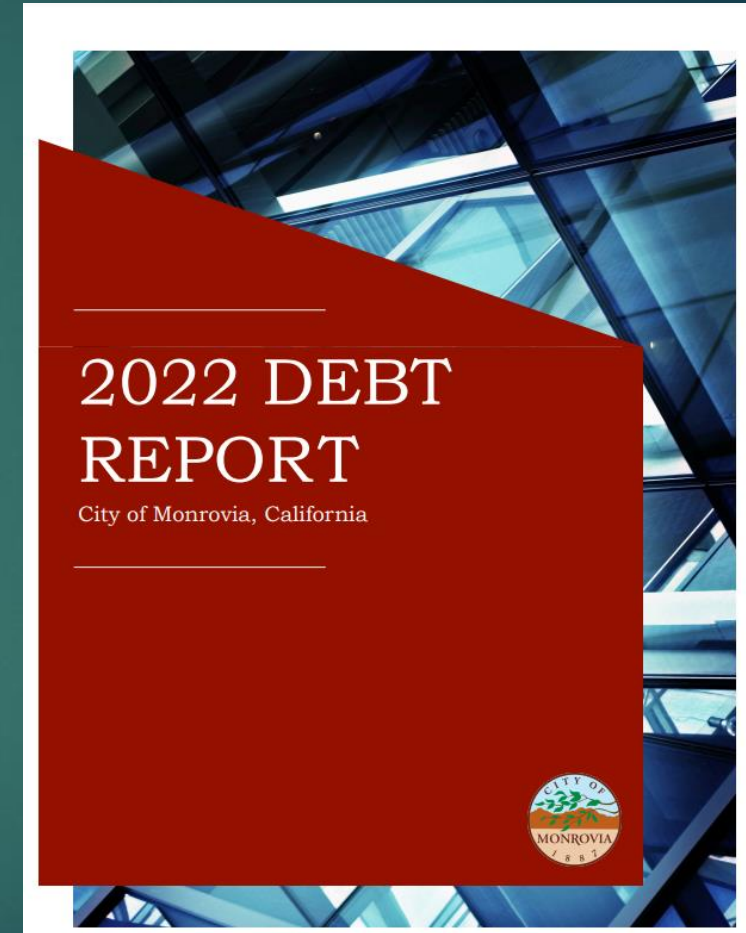


Debt Report

A review of the City's debt and credit rating.

CITY COUNCIL STUDY SESSION

OCTOBER 4, 2022



Study Session Objectives

- ▶ Provide City Council with information on the City's outstanding debt obligations.
- ▶ Provide City Council with an understanding of the different factors affecting the City's debt portfolio and credit rating.
- ▶ Provide City Council with an independent outside analysis and assessment of the City's debt portfolio.
- ▶ Provide City Council with objectives/strategies for improving the City's credit rating and debt management practices.
- ▶ Seek input and feedback from City Council on proposed debt strategies.

Presentation Overview

Debt Background -

- ▶ Debt Basics
- ▶ Overview of City's current outstanding debt obligations
- ▶ Measures the City taken to improve its financial position
- ▶ Recent credit rating upgrade!

Columbia Capital, LLC, Analysis –

- ▶ A comprehensive review and analysis of the City's debt was conducted by Columbia Capital, LLC, an independent, third-party municipal advisor. Tonight's presentation will include a discussion of:
 - ▶ Columbia Capital's review of the City's credit rating
 - ▶ Columbia Capital's recommendations to improve the City's overall credit rating/debt position.



Debt Review and Discussion

Debt Basics

- ▶ State and local governments, like the City of Monrovia, often rely on debt for a variety of reasons.
- ▶ The issuance of long-term debt has historically provided a major source of funding for capital needs for state and local governments.
- ▶ Because of the high cost of acquiring or replacing assets, governments are generally not able to accumulate enough cash from current receipts to pay for necessary improvements, so issuing debt is often an attractive option.
- ▶ Issuing debt provides project funding upfront, with repayment of principal and interest (i.e., debt service) scheduled over an extended period of time (e.g., 20-30 years), similar to a home mortgage.
- ▶ Municipal bonds are attractive to investors because they provide tax exempt interest earnings if issued for a governmental purpose and for the benefit of the public.

Monrovia's Debt

- ▶ Over the years, the City of Monrovia has utilized long-term debt financing to provide funding for the City's capital needs. Bonds have been issued to provide funding for:
 - ▶ The Monrovia Library
 - ▶ The purchase of property in the Hillside Wilderness Preserve
 - ▶ The Monrovia Renewal Project, a project which resulted in City-wide infrastructure upgrades to water, sewer, and street infrastructure.
- ▶ The City also utilized long-term debt financing to pay off the City's Cal PERS Unfunded Accrued Liability (UAL) balance at a lower interest rate, which resulted in interest savings over the life of the obligation (i.e., 4.0% vs. 7.37%).
- ▶ The City's approach to debt has always been to identify a pledged revenue for each debt issuance and thoughtfully consider all options before issuing debt.

Important Debt Considerations

- ▶ All of the City's outstanding bond obligations have specific revenue streams dedicated for their repayment.
- ▶ All of the City's debt obligations have added a corresponding asset to the City's balance sheet, with the exception of the Pension Bonds, which traded a higher interest liability with a lower interest liability.
- ▶ Responsibly managing debt, and the City's overall financial position, has been an important objective for the Monrovia City Council.
- ▶ Each debt issuance has been thoughtfully reviewed and considered prior to issuance.
 - ▶ The City has always identified a pledged revenue source prior to issuing debt. Thoughtful consideration goes into each bond issuance.

Monrovia's Current Outstanding Debt

Bond Description	Purpose of Debt	Pledged Revenue	Remaining Years	Outstanding Principal at 7/1/22
2015 Hillside Lease Revenue Bonds	To purchase property in the Hillside Wilderness Preserve	Dedicated Parcel Tax (Property Tax Revenues)	9 years	\$4,135,000
2016 Measure R & Proposition C Street Improvements Lease Revenue Bonds	To fund the Monrovia Renewal Project	Measure R & Proposition C Local Sales Tax Return Revenues	23 years	\$12,035,000
2016 Water and Sewer Revenue Bonds	To fund the Monrovia Renewal Project	Water and Sewer User Rate Revenues	23 years	\$32,660,000
2017 Library Lease Revenue Refunding Bonds	To fund the construction of the Monrovia Library	Dedicated Parcel Tax (Property Tax Revenues)	16 years	\$11,285,000
2017 Taxable Pension Obligation Bonds	To reduce outstanding pension obligations	Dedicated Property Tax	25 years	<u>\$100,695,000</u>
				<u>\$160,810,000</u>

Does not include Successor Agency debt

Monrovia's Outstanding Debt FY 17-18 Through FY 22-23

Fiscal Year	Outstanding Balance
FYE 6/30/18	\$177,675,000
FYE 6/30/19	\$173,625,000
FYE 6/30/20	\$169,745,000
FYE 6/30/21	\$165,210,000
FYE 6/30/22	\$160,810,000
FYE 6/30/23	\$156,260,000



Review of Financial Measures

What Has Monrovia Done to Improve Its Finances?

The City Council has taken positive and proactive steps to help improve the City's fiscal health and ensure long-term financial stability.

- ▶ In 2017, the City Council approved a CalPERS Response Plan (CPR Plan).
- ▶ In 2018, the City Council approved Financial Resiliency Plan (FRP) Principals.
- ▶ In 2018, the City Council approved a five-year water rate increase that helped to improve the long-term fiscal sustainability of the Water Fund.
- ▶ In 2019, the City Council approved the Measure K sales tax initiative (approved by the voters in November 2019), which currently generates an additional \$6.5 million in revenues each year.

What Has Monrovia Done to Improve Its Finances? (Cont'd)

- ▶ In 2017 and 2021, the City Council took steps to address the City's long-term CalPERS Unfunded Accrued Liability (UAL) and OPEB Liability. Both of these items have been an ongoing priority for the City Council.
- ▶ When the COVID pandemic began in 2020, and the City Council took quick and decisive action to ensure budgetary and financial sustainability.
- ▶ Overall, the City has completed significant work to try to improve its financial position over the last several years.

Cal PERS Response (CPR) Plan Review

- ▶ In FY 2017-2018, the City Council adopted a five-pronged approach to addressing rising unfunded liability pension costs
 - ▶ Employees agreed to pay more towards pension costs.
 - ▶ Refinanced all of the City's existing unfunded accrued liability (UAL) and pension liability debt (+/- \$112 million).
 - ▶ Established a new UAL accountability and funding policy.
 - ▶ Increased the City's Transient Occupancy Tax (TOT) by 2%.
 - ▶ Created Community Facility Districts (CFDs) on significant new development projects. Several CFD's have been implemented to-date with more to come.

Financial Resiliency Plan (FRP) Review

In FY 2018-2019, the City Council approved five principals that are aimed to ensure fiscal sustainability on an ongoing basis:

- ▶ Protect General Fund dollars and minimize subsidies to any funds that should be self-sustaining
 - ▶ Includes ensuring that user fees cover the cost of providing services.
- ▶ Complete the remaining elements of our CPR Plan.
- ▶ Facilitate appropriate new development projects to bolster the City's revenue base.
- ▶ Build up General Fund reserve levels in preparation for a future recession.
- ▶ Consider contracting out for services if a significant cost savings has been identified and if appropriate.

The FRP principals continue to be incorporated into budgetary decisions on an annual basis. The FRP principals are based on the idea of proactively instituting measures today, when we can, rather than tomorrow when we have to!

UAL Pension and OPEB Policy Overview

In 2017, the City established its first UAL Funding Policy.

- ▶ The Policy called for a specific funding methodology to pay future increases in the outstanding UAL balance.

In 2021, the UAL Funding Policy was modified to include OPEB liabilities.

- ▶ The Policy called for the establishment of a Section 115 Trust for OPEB and pension costs.
- ▶ The Policy also called for a specific funding schedule to ensure ongoing contributions to the Trust.
- ▶ The updated Policy identified a specific, annual revenue source (Redevelopment Residual Property Tax Revenue) that will be dedicated to the Trust each year.
 - ▶ This revenue source is estimated to bring in approximately \$1M in revenue annually.

COVID Budgetary Measures

When the pandemic began in 2020, the City Council was quick to take decisive action to ensure budgetary and financial sustainability. Some of the measures taken included:

- ▶ Many contracts were renegotiated, resulting in overall reduced costs.
- ▶ Savings were achieved by keeping non-critical positions (approximately 20) vacant during the fiscal year.
- ▶ Non-essential overtime was eliminated.
- ▶ Some costs were shifted from the General Fund to other appropriate funds, thereby reducing the overall negative impact on the General Fund.
- ▶ The City Manager and Management took a voluntary pay cut through the end of the fiscal year.
- ▶ Additionally, some savings were realized from reduced costs from City facility closures.

Where Are We Now?

The proactive financial measures implemented by the City Council have helped to produce positive results:

- ▶ The City weathered the COVID pandemic, with General Fund surpluses in FY 19-20 and FY 2020-21.
- ▶ GF Fund Balance continues to grow each year
- ▶ Pension and OPEB liabilities are being addressed
- ▶ And...

Good News!

Standard and Poor's (S & P) just recently completed a credit review of the City's finances in June 2022, and the City received a credit rating upgrade from AA to AA+, just one rating short of AAA!

6/23/22, 1:34 PM Monrovia, CA Issuer Credit Rating Raised To 'AA+' | S&P Global Ratings

23-Jun-2022 | 12:18 EDT

Monrovia, CA Issuer Credit Rating Raised To 'AA+' From 'AA' On Economic Growth; Outlook Is Stable

DALLAS (S&P Global Ratings) June 23, 2022--S&P Global Ratings raised its issuer credit rating (ICR) to 'AA+' from 'AA' on the City of Monrovia, Calif. At the same time, we raised our long-term rating to 'AA+' from 'AA' on the city's pension obligation bonds (POBs) outstanding. Lastly, we raised our long-term and underlying rating (SPUR) to 'AA' from 'AA-' on the city's lease revenue bonds outstanding. The outlook is stable.

"The upgrades reflect our view of the city's financial resilience and trajectory through the COVID-19 pandemic, with available general fund increasing to what we consider a very strong 21% at fiscal year-end 2021, supported by the city's well-integrated fiscal management practices and policies, and growing and diverse economic base," said S&P Global Ratings credit analyst Daniel Golliday.

Where Do We Go From Here?

While the City has taken positive and proactive steps to help improve the City's fiscal health and ensure its long-term financial stability, we are always looking for ways to improve.

- ▶ Want to ensure we're doing everything we can to improve financial position, which includes managing debt the best we can.
 - ▶ Even though we recently received an increase in our Issuer Credit Rating (ICR) from AA to AA+, we're still aiming for AAA.
- ▶ To that end, the City hired Columbia Capital to review the City's debt portfolio and provide an analysis and recommendation for debt management best practices.
 - ▶ Columbia provides an independent, third-party, "industry expert" perspective.
 - ▶ Jeff White, Managing Member from Columbia Capital, LLC, will provide an overview of the City's credit rating and possible additional actions to improve overall debt management.