

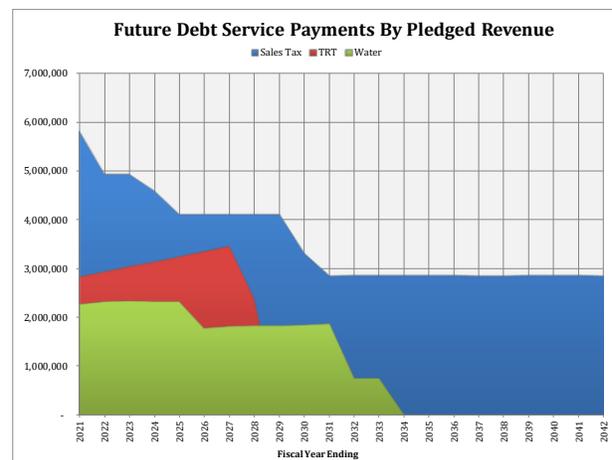
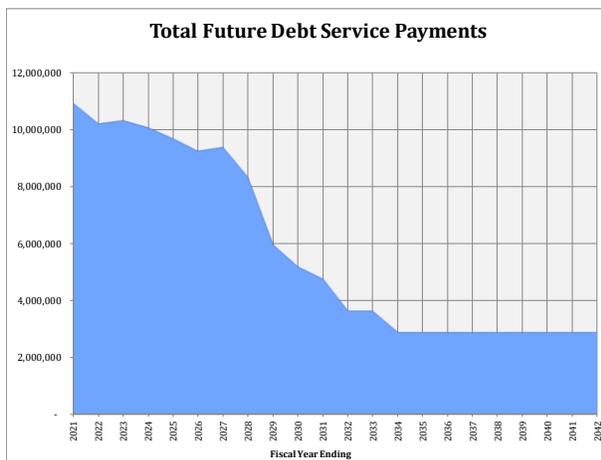
DEBT

Sandy City uses debt judiciously consistent with the policies listed below. The City currently enjoys a AAA bond rating from Standard and Poor's for sales tax revenue bonds. This rating allows the city to issue bonds at a lower rate than governmental agencies with a less favorable bond rating. The FY 2021 budget includes \$8.3 million of general debt service payments. As of June 30, 2021, the outstanding general debt will be about \$67.0 million. The schedule below includes total city debt, including outstanding debt issues in the Water and Golf funds. General debt issues are accounted for in debt service funds, whereas debt incurred by proprietary funds is accounted for within those respective funds (Water and Golf funds).

OUTSTANDING DEBT ISSUES

Fund	Description	Pledged Funding Source	Actual Funding Source	Matures In:	Debt Service - FY 2021			Outstanding (6/30/21)
					Principal	Interest	Total	
3119	Monroe St. Property Bonds	Sales Tax	RDA - Civic Center North	FY 2021	878,000	13,565	891,565	-
5600	Golf Course Bonds	Sales Tax	Golf, RDA - Civic Center South	FY 2023	310,000	32,800	342,800	665,000
3113	Court Building Bonds	Sales Tax	Impact Fees, General Fund	FY 2024	260,000	33,150	293,150	845,000
3118	Mt Jordan Theater Bonds	Sales Tax	General Fund	FY 2024	159,000	22,411	181,411	510,000
3115	2007 Soccer Stadium Bonds	Transient Room Tax (TRT)	TRT - County	FY 2028	2,120,000	692,932	2,812,932	19,025,000
3117	2008 Soccer Stadium Bonds	Sales Tax	TRT - City, CDA 9400 South	FY 2029	595,000	204,953	799,953	5,523,000
3111	Storm Water Bonds	Sales Tax	Storm Water Fund	FY 2030	315,000	143,700	458,700	3,435,000
5100	Water Revenue Bonds	Water Revenues	Water Fund	FY 2033	1,668,120	601,304	2,269,424	17,356,950
3120	Hale Centre Theatre Bonds	Sales Tax	Hale Centre Theatre Lease	FY 2042	1,020,000	1,833,512	2,853,512	37,700,000
Total					\$ 7,325,120	\$ 3,578,327	\$ 10,903,447	\$ 85,059,950

As shown in the schedule above, the City's outstanding debt obligations extend through FY 2042. The chart below on the left illustrates how these future debt service payments are laid out over that time period, with the majority of debt service payments being completed within the next decade. Only the Hale Center Theatre debt service payments remain after FY 2033. The chart below on the right shows these debt service payments across the same time period broken out by the revenue pledged for each issuance of debt. In order to obtain the best interest rates, sales tax revenue has been pledged for all but two of the City's outstanding debt issues. However, alternative sources of revenue are being used to cover the debt service payments on sales tax revenue bonds. Only the Court Building Bonds and the Mt. Jordan Theater Bonds are being covered by a direct transfer of general revenues, equating to just over 7% of total sales tax revenue bond payments in FY 2021. Both these bonds will mature at the end of FY 2024, freeing up over \$400,000 in general revenues.



In order to pledge sales tax to cover debt service payments on bonds, the City must have adequate coverage. The coverage ratio is the sales tax revenue available in relation to the debt service requirement. This ratio is one indication of revenues available for payment of debt service. The historical and projected coverage for sales tax revenue is detailed in the table to the right.

The City’s most recent rating from Standard & Poor’s indicates very strong historical and projected coverage at greater than 2x maximum annual debt service. The lowest ratio was 2.73 in FY 2017. Even if a decline in sales tax is projected in FY 2021 with no growth in future years, the coverage ratio remains very healthy over the next decade, ranging from 3x to 7x maximum annual debt service. This likely gives the City enough headroom to pledge sales tax in future bonding scenarios to obtain optimum rates, although additional funding sources to cover the debt service would be ideal.

	Fiscal Year	Sales Tax Revenue	Sales Tax Growth Rate	Total Debt Service	Coverage Ratio
HISTORICAL	2011	15,703,214	-2.25%	3,562,151	4.41
	2012	16,949,514	7.94%	3,531,498	4.80
	2013	18,292,178	7.92%	3,339,100	5.48
	2014	18,750,745	2.51%	4,655,270	4.03
	2015	19,221,835	2.51%	5,243,103	3.67
	2016	19,891,096	3.48%	6,552,020	3.04
	2017	20,642,039	3.78%	7,562,265	2.73
	2018	21,909,964	6.14%	7,441,008	2.94
	2019	22,289,422	1.73%	7,435,012	3.00
	2020	23,060,272	3.46%	7,550,105	3.05
PROJECTED	2021	22,000,000	-4.60%	5,821,092	3.78
	2022	22,000,000	0.00%	4,931,968	4.46
	2023	22,000,000	0.00%	4,931,722	4.46
	2024	22,000,000	0.00%	4,586,605	4.80
	2025	22,000,000	0.00%	4,111,633	5.35
	2026	22,000,000	0.00%	4,111,953	5.35
	2027	22,000,000	0.00%	4,106,686	5.36
	2028	22,000,000	0.00%	4,105,933	5.36
	2029	22,000,000	0.00%	4,104,391	5.36
	2030	22,000,000	0.00%	3,309,663	6.65
	2031	22,000,000	0.00%	2,854,250	7.71

DEBT POLICIES

HIGH LEVEL POLICIES

- Sandy City should combine pay-as-you-go strategies with long-term financing to keep the debt burden low
- Sandy City should seek to maintain the city bond rating, currently “AAA” for sales tax revenue bonds
- Sandy City should seek the most practical and cost-efficient financing available

FORMAL DEBT POLICY

The Sandy City Debt Management Policy formally creates a solution to managing debt effectively and efficiently. It establishes parameters for issuing debt and managing a debt portfolio which encompasses the City’s specific capital improvement needs, its ability to repay financial obligations, and the existing legal, economic, financial and debt market conditions. This framework allows the City to make informed borrowing decisions. Selected sections of this policy are included below.

Authorization and Responsibility

The Administrative Services Director is authorized by City Council to manage the monetary needs of the City. The Administrative Services Director acts in a lead role in debt management and bond issuance to ensure the most efficient use of the City's bond capacity and borrowed monies. Based on professional judgment and this policy, the Administrative Services Director will make recommendations to City Council on the financial needs of the City should best be handled.

Goals and Objectives of Debt Management Policy

The items outlined in the Debt Management Policy are not goals or a list of rules to be applied toward the City's debt issuance, rather these policies should be utilized as tools to ensure that adequate financial resources are available to support the City's long-term capital needs. Specifically, the policies outlined in this document are intended to assist the City in the following:

- A. Moderate the issuance of debt through parameters such as legally authorized debt limits and tax or expenditure ceilings, including coverage requirements imposed by bond covenants. The City's debt affordability is determined by many factors including the economic and demographic trends in the community and outstanding debt levels. It is also affected by the outstanding and planned debt of other governments in a community relying on the same tax base. Overlapping debt levels are integral to an affordability assessment.
- B. Minimize the use of property tax revenues as a funding source for debt service.
- C. Devise debt service structures that are equal to or less than the estimated useful life of the asset requiring the funding.
- D. Protect and enhance the City's credit rating.
- E. If outside consultants or vendors are required, hire such professionals that will help to maximize the efficiency associated with the issuance of debt and minimize the cost.
- F. Assist related entities of the City in issuing debt, if needs warrant.
- G. Minimize the overall cost of debt issuance.
- H. Maximize investment earnings allowable under the Tax Reform Act of 1986.
- I. Maintain a contingency plan in case of funding short-falls (i.e., Reserve Fund, the City should maintain General Fund (GF) Undesignated Reserves in excess of 10% of GF expenditures)
- J. Prevent reliance on nonrecurring revenue items.
- K. Related to general fund-oriented debt obligations, maintain maximum favorable position versus key debt ratios, as follows:

Key General Fund Debt Ratios Description/Trend	Sandy City FY 2021 Debt Ratios
Net Debt to Appraised Property Value % (Favorable Trend = Lower than <u>2.0%</u>)	<u>0.7%</u>
% of Principal Debt Retired in Ten Years * (Favorable Trend = Greater than <u>65.0%</u>)	<u>94.9%</u>

* This excludes debt for which an external entity is obligated to make the debt payments.

Other metrics considered include the following:

Key General Fund Debt Ratios Description/Trend	Sandy City FY 2021 Debt Ratios
Debt Per Capita* (Favorable Trend = Less than <u>\$2,000</u>)	<u>\$326</u>
Debt Service as a Percentage of General Fund Spending * (Favorable Trend = Less than <u>12.0%</u>)	<u>9.4%</u>

* This excludes debt for which an external entity is obligated to make the debt payments.

Structural Approach to Debt Management

As part of City's financing activities, General Fund resources may be used to provide credit support of loan guarantees for public or private developments that meet high priority City needs. Before such General Fund commitments are made, specific policy goals and objectives that determine the nature and type of projects qualifying for such support, and specific limitations to be placed on the maximum amount of General Fund resources pledged to such projects shall be developed. The Finance

Department shall be responsible for coordinating the development of such policies and goals, which shall not take effect until approved by the City Council. Key factors that will be considered in determining whether or not the General Fund should be used to secure a particular debt obligation will include the following:

1. Demonstration of underlying self-support, thus limiting potential General Fund financial exposure.
2. Use of General Fund support as a transition to a fully stand-alone credit structure, where interim use of General Fund credit support reduces borrowing costs and provide a credit history for new or hard to establish credits.
3. General Fund support is determined by the Mayor, City Council and Administrative Services Director to be in the City's overall best interest.

Financial Consultants and Service Providers Policy

The City's Finance Department shall be responsible for establishing a solicitation and selection process for securing professional services that are required to develop and implement the City's debt program. Goals of the solicitation and selection process shall include encouraging participation from qualified service providers at competitive prices. These services generally include the following:

1. Financial Advisor
2. Bond Counsel
3. Underwriters
4. Trustee & Paying Agent

Credit Ratings and Enhancement

The Finance Department along with the City's Financial Advisor shall be responsible for maintaining the City's relationships with Moody's Investors Service, Standard & Poor's and FITCH Ratings. The City Finance Department may, from time-to-time, choose to deal with only one or two of these agencies as circumstances dictate. In addition to general communication, the City's Finance Team shall strive to (1) meet with credit analysts at least once each fiscal year, and (2) prior to each competitive or negotiated sale, offer conference calls with agency analysts in connection with the sale. These efforts shall include providing periodic updates on the City's general financial condition along with coordinating meetings and presentations in conjunction with debt issuances. As part of the rating process, it is often useful and sometimes required to hold meetings with representatives of credit rating agencies. Such meetings give the City an opportunity to make a presentation, provide a framework for resolution of questions, and facilitate an exchange of views. Rating agencies concentrate on, but are not limited to these four key analytical factors:

1. Economic Environment of City
2. Debt Structure
3. Administrative, Legislative and Political Climate
4. Fiscal Management

Refunding of City Indebtedness

The City may issue current refunding bonds (as defined for federal tax law purposes) when economically advantageous, legally permissible, prudent, and a target of 2.5% in net present value savings of current outstanding principal balance of the issue is achieved or in excess of \$250,000 of net present value, or when the Administrative Services Director deems a refunding of outstanding debt to be prudent.

CONCLUSION

Sandy City is in a good position with respect to debt management. Favorable bond ratings, a rapid debt payoff over the next 10 years, strong sales tax coverage ratios, and minimal general fund contributions required for debt service obligations are all factors contributing to a solid foundation for the City. As future bonding is considered, utilizing the debt management policy and carefully considering these indicators of sustainable debt will be critical in keeping Sandy City on that solid foundation.