



## Council Agenda Report

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Item 5j

**Department:** Finance  
**Cost Center:** 2001  
**For Agenda of:** 11/15/2022  
**Placement:** Consent  
**Estimated Time:** N/A

**FROM:** Brigitte Elke, Finance Director

**SUBJECT:** APPROVE AN UPDATE TO THE DEBT MANAGEMENT POLICY

### RECOMMENDATION

Review and approve an update to the City's Debt Management policy to include the option to issue debt through designated bonds such as green or sustainable bonds.

### POLICY CONTEXT

The City of San Luis Obispo maintains an extensive fiscal and budget policy framework. The policies are included in the two-year financial plan and are critically reviewed as part of the budget development process. To make the policies more accessible, staff has been working on stand-alone policy documents and recommendations to update the policies to align with current best practices and Major City Goal objectives.

### DISCUSSION

#### Background

The City of San Luis Obispo maintains an extensive and well thought-out financial and budget policy framework. The policies are an integral part of the City's two-year financial plan and receive critical review during the development of the next plan. Through this approach, the policies are kept current according to best practices and industry standards. The Government Finance Officer Association (GFOA) uses the City's policies in many instances as examples for other municipalities and government agencies to use.

Whenever beneficial, staff have been working on developing stand-alone policies for easier access by the public. This also allows for an additional review of the policy and the integration of Major City goal objectives and consideration. As such, the City updated its Investment Management policy in 2021 and integrated an Environmental, Social, and Governance component to its investment approach. The policy has received the certification award from the California Municipal Treasurers Association.

## Current Update

Given the City's anticipated need to issue debt in the foreseeable future for critical infrastructure and the growing interest in green and sustainable bonds, staff reviewed the Debt Management policy to ensure an up-to-date framework and the possible inclusion of considering designated bonds for assets that could be of interest to investors looking to finance green and sustainable infrastructure.

Upon review of current best practices and debt policies from other jurisdictions considered outstanding by the GFOA, staff noted that the City's current debt policy is relevant, designed to protect the City fiscal health, uphold credit ratings, and allow for debt issues within the framework of affordability to obtain favorable terms and conditions.

The draft policy (Attachment A) before Council for consideration therefore contains few edits, but introduces a new section that will allow for bond designations such as green and sustainable bond considerations should the terms and conditions of such an offering result in a beneficial debt issuance for the City in pursuit of overarching City goals and objectives.

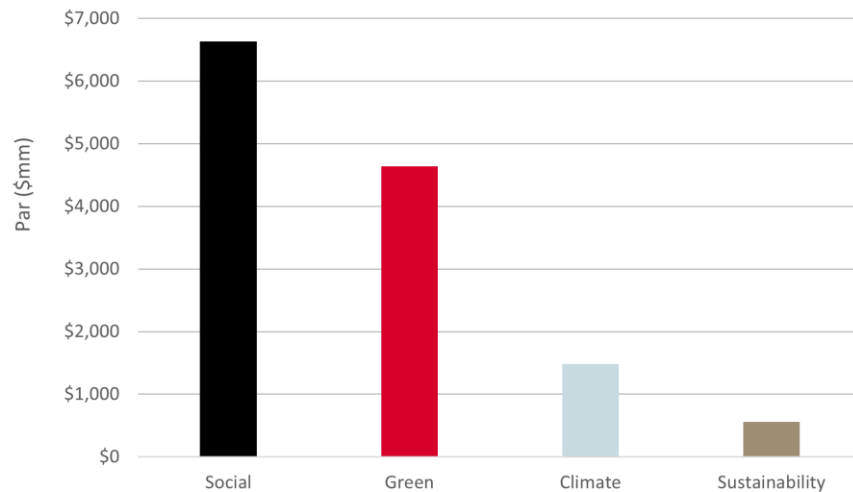
## Bond Designations

**Green bonds** are designated bonds intended to encourage sustainability and to support climate-related or other types of special environmental projects. More specifically, green bonds finance projects aimed at energy efficiency, pollution prevention, sustainable agriculture, fishery and forestry, the protection of aquatic and terrestrial ecosystems, clean transportation, clean water, and sustainable water management. They also finance the cultivation of environmentally friendly technologies and the mitigation of climate change.

**Sustainable bonds** are loans used to finance projects that bring clear environmental and socio-economic benefits. As such sustainable bonds also look toward affordable basic infrastructure, access to essential services, affordable housing, employment, food security and sustainable food systems, as well as socioeconomic advancement and empowerment.

Though still a nascent part of the bond market, designated bonds have gained traction and are being used regularly. According to the third quarter report released by S&P Global, approximately \$13 billion in designated bonds have been issued with social bonds accounting for roughly half or \$6.68 billion of par volume.

## ESG Issuance by Type



Source: S&P Global Market Intelligence

### Concerns regarding bond designations

Several studies have raised concerns about the risk of “greenwashing” when bond revenues are not systematically applied to activities with positive environmental outcomes, further indicating that risk is accentuated by the lack of a clear and unique definition of what makes a bond “sustainable”. Given these considerations, the policy update stipulates a framework for ongoing review and certification of the use of bond proceeds and merely offers the opportunity to consider green and sustainable bonds whenever all components make it attractive and relevant for the City.

### Previous Council or Advisory Body Action

The City Council has last reviewed the policy framework during the Budget Foundation agenda item in January 2021 and approved the policy section of the 2021-23 Financial Plan on June 1, 2021.

### Public Engagement

This item will be reviewed during a public meeting of the City Council and will be made available in accordance with the City’s current publishing schedule of Council agendas. Public comment can be submitted prior and during the Council meeting.

### CONCURRENCE

The City’s Municipal advisor has reviewed the policy and the pertinent language regarding designated bonds and concurs with the recommended language within the policy.

### ENVIRONMENTAL REVIEW

The California Environmental Quality Act does not apply to the recommended action in this report because the action does not constitute a “Project” under CEQA Guidelines Sec. 15378.

**FISCAL IMPACT**

Budgeted: No

Budget Year: 2022-23

Funding Identified: Yes/No

**Fiscal Analysis:**

<b>Funding Sources</b>	<b>Total Budget Available</b>	<b>Current Funding Request</b>	<b>Remaining Balance</b>	<b>Annual Ongoing Cost</b>
General Fund	\$ N/A	\$	\$	\$
State				
Federal				
Fees				
Other:				
<b>Total</b>	<b>\$ N/A</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

Approving the new policy and inclusion of the option to issue debt through designated bonds does not in itself present a fiscal impact. The policy provides the framework for the City to issue debt with the best possible terms and conditions and includes the guiding principles to keep the City in sound financial standing while maintaining the best possible credit rating.

**ALTERNATIVES**

***Council could decide not to approve the integration of bond designations in the debt management policy.*** This action is not recommended by staff because this policy aligns with the ESG investment goals and the Major City Goals of Climate Change and DEI.

**ATTACHMENTS**

A - Draft Debt Management Policy