WELLS FARGO SECURITIES

California Debt & Investments Advisory Commission

Accessing the Market

Debt Management Policy & Plan of Finance

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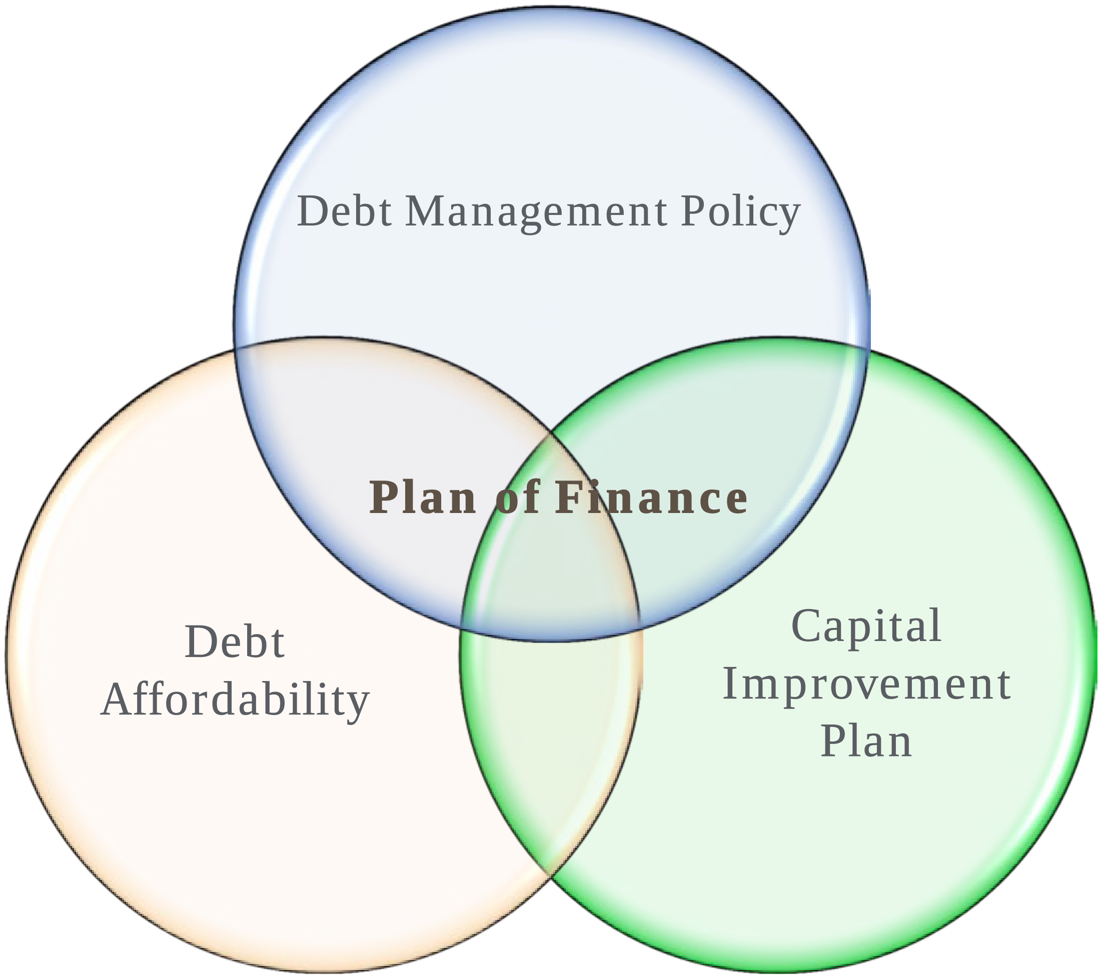
Together we'll go far

Effective Plans are Informed by Policy

- An issuer should maintain, at all times, debt management policies that are fiscally prudent, consistent with the law and reflect ***the unique needs of an issuer***



Examples of Topics Addressed in a Debt Policy

- Establish parameters for issuing and managing debt
- Provide guidance related to debt affordability
- Promote objectivity in the debt approval process
- Define processes and approvals needed to issue debt
- Facilitate development of plan of finance by establishing policy decisions

Debt Management Policy – What is it? Why is it Important?

- Debt Management Policy:
  - Improves the quality of decisions
  - Provides justification for the structure of debt issuance, identifies policy goals
  - Demonstrates a commitment to long-term financial planning, including a multi-year capital plan

- Adherence to a debt management policy:
  - Signals to the capital markets that a government is well managed
  - Indicate government can pay obligations in a timely manner

Basic Questions to be Addressed in a Debt Policy

- What is the purpose of the debt?
- What is the legal authority for the debt?
- How will the debt be repaid?
- Can we afford the debt?
- What internal approvals are needed?

Purpose of Financing

- Is the project to be financed well defined and approved?
  - Have construction bids been received
  - Multi-year CIP
- Should the project be financed by bonds or by pay-as-you-go funds?
  - Beneficiaries over time
  - Cash reserves
- Refinancing for savings?
- Restructuring for budget savings?
- Intra-year cashflow borrowing?

Legal Authority

- Legal Limitations
  - Constitutional debt limit
  - Proposition 218
  - Charter

- Who benefits
  - Assessment Districts

- Authorizing Statute
  - Government code
  - Education code

Repayment Plan

- Will the project being financed generate its own revenues?
- Will bonds be sized just the project revenues?
- How will on-going maintenance be paid for?
- Will the General Fund have to be pledged?

Debt Affordability

- What is the impact on future budget flexibility?

- How will issuing debt effect debt ratios for issuer?
  - Total debt and annual debt service as a percentage of General Fund
  - Total debt on a per capita basis
  - Debt as a percentage of Assessed Value
  - Coverage requirement of revenue bonds

- Should we complete a Debt Capacity Study?

Governing Body Approval Process

- Is there a Debt Advisory Committee?

- Is there a Finance Committee of the governing body?

- Docketing timeline for final approval

- Debt policy itself need approval?
  - By resolution, have governing body formally adopt debt management policy
  - Ensures governing body is assuming responsibility
  - Changes, amendments, modifications can be made annually

Summary – Debt Policies

- Policies are Powerful
- Fundamental foundation for long-term fiscal health
- Underlying basis for case-by-case decision-making
- Provides context for what is unique about your entity
- Articulates your values to investors

Elements of a Plan of Finance

- Projects
  - Capital improvement plan that identifies and prioritizes projects
  - Reliable cost estimates that incorporate future capital costs and O&M of the project to be financed
- Revenue
  - Realistic revenue forecasts
  - Address the longevity, availability, reliability and flexibility of future revenue sources
- Financial Policies and Targets
  - Debt Policy
  - Coverage target
  - Ratings target
  - Tax/fee target
  - Reserve target
- Legal Framework
  - Authorization to levy taxes or fees
  - Authorization to issue debt
  - Tax law governing the issuance of debt and use of proceeds
- Timing of Debt Issuance
  - Market conditions
  - Negotiated vs. Competitive Sale

Debt Issuance Considerations

- Timing
  - Tax regulations provide exceptions to arbitrage rebate requirements including spending exceptions for:
    - 6-months
    - 18-months
    - 2-years
  - Larger, less frequent financings can reduce cost of issuance and the amount of staff resources dedicated to bond financing
- Maintain flexibility
- Rate increases approved or not
- New environmental/legislative mandates
- New management/elected officials
- Economic environment changes
- Tax law changes
- Credit rating downgrade/upgrade
- Trust, but verify

Summary - Plan of Finance

- A plan of finance is a management tool that is used in conjunction with this debt policy to develop an optimal funding strategy to meet capital needs

- It is not meant to remain static, but should be revisited and be flexible
  - It should allow for continuous feedback and should be responsive to the needs of the various stakeholders
  - It should be flexible, in order to respond to any unforeseen challenges and to capitalize on any unique market opportunities