

CDIAC

**CALIFORNIA
DEBT AND
INVESTMENT
ADVISORY
COMMISSION**

ADMINISTERING AND MAINTAINING A DISCLOSURE POLICY

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SEPTEMBER 8, 2016



**CDIAC: MUNICIPAL MARKET DISCLOSURE
ADMINISTERING AND MAINTAINING A DISCLOSURE POLICY**

JOHN F. ADAMS, FINANCE DIRECTOR

SEPTEMBER 8, 2016

CITY OF THOUSAND OAKS PROFILE

Brief Background – Infrequent Issuer

- General Law/Contract City w/500 employees & a \$190M Budget
- Population of 130,000
- 7 bond issues / \$87M outstanding
 - 2 revenue bonds (2010)
 - 1 Successor Agency bond (2015)
 - 2 CFD bonds (1998, 2012)
 - 2 multi-family housing bonds (2005)



DEBT POLICY BACKGROUND

- Initial Debt Policy Early 2000's
- Life Before SEC Municipalities Continuing Disclosure Cooperative
- Revised Debt Policy with Disclosure Components January 2014
 - Bond Counsel presentation on Disclosure & Training
 - Policy Adopted by City Council
 - Disclosure Review Group is Formed
- One Bond Issue since 2014 Adoption of Revised Policy



PRIMARY DISCLOSURE

- Financing Team Responsible for Preparation
- Debt Analyst works with Key Department Contacts
- Review by Disclosure Review Group
- Official Statement presented to City Council as Department Report
- Training Provided



CONTINUING DISCLOSURE

- Annual Filings Prepared by Debt Analyst
- Finance Staff reviews for Accuracy and Completeness
- Disclosure Review Group reviews at Annual Meeting
 - Includes MD&A section of CAFR
- Event Notification does not require Disclosure Review Group
- Periodic Training



ADMINISTRATION/MAINTENANCE

- Best Practices
- Periodic Review
- Training
- Policy Compliance
- Electronic Municipal Market Access - EMMA
- City Website



Administering and Maintaining a Disclosure Policy

**September 8, 2016
Lakshmi Kommi, City of San Diego
Debt Management Director**





How Do You Know It's Working?

- Knowledgeable staff with clear understanding of disclosure roles and responsibilities
- Contributing parties engage – ask thoughtful questions, raise topics for discussion
- Staff required to participate in biennial disclosure training are attending (document attendance)
- Snapshot of compliance status and all disclosure filings readily available
- Potential issues and problems identified early in the process and actively managed



City's Debt Portfolio

- Issuer Ratings AA-/Aa2/AA (Fitch/Moody's/S&P)
- Debt Administered \$3.2 billion
 - General Fund/LRBs - \$603 million
 - Public Utilities Water and Sewer - \$1.6 billion
 - Special Districts (CFDs/ADs)- \$105 million
 - RDA - \$470 million
 - Tobacco Settlement Bonds - \$70 million
- City manages ~40 Continuing Disclosure Certificates
- ~30* Annual Reports filed on EMMA past year
- ~38 Material Events filed on EMMA past year

**Some reports cover multiple issuances.*



What are our policies?

- **City Municipal Code**
- **Debt Policy**
- **City Disclosure Practices Working Group Controls & Procedures**
- **Post Issuance Compliance Monitoring Program**
- **EMMA Filing Procedures**
- **Disclosure Filings Check Lists for EMMA and Emma Issuer Page**
- **Disclosure Filings Database**

Additional Standards

- **Log of Contributors – catalogues responsible contributing sources for each section of Official Statement**
- **Training – mandated biennial training of financial and operating staff involved in review and preparation of disclosure documents; also requires separate trainings for the legislative body, and Mayor**
- **Reporting**
 - **Operational Staff annual reporting of timely disclosures to CFO**
 - **Management and City Attorney annual reporting to governing board on prior year disclosure activities**



Disclosure Filings Check-list and Database

- Check-list of key steps to prepare, review, and file a continuing disclosure document
- Each continuing disclosure filing is recorded in a master database maintained by Debt Management
 - Type of disclosure, date filed, link to EMMA filing
 - Important source for preparing continuing disclosure compliance section of Official Statements



EMMA Filings Procedures

- Step-by-step instructions for filing annual reports and material events on EMMA
- Ensures proper classification of filings on EMMA system
- Emphasizes proper association of issues or CUSIPS to the disclosure



Primary and Secondary Disclosures Process

Primary Disclosure

Primary Disclosure Preparation (guided by DPWG Controls & Procedures)

- Financing Group for disclosure development identified for each transaction
- Financing Group kick-off to discuss content, sources of information, outreach for information to contributing departments
- Outreach to contributors (initial communication sets stage - background, role, DPWG Controls and Procedures, link to biennial disclosure training)



Primary Disclosure, cont.

- Contributors provide information
- Initial Official Statement drafts reviewed by Financing Group
- Transaction Financing Team all hands review
- City DPWG review and sign-off
- Process and Content Certifications by contributors, DPWG, Mayor, City Attorney
- City Council consideration
- Dissemination to market



Primary Disclosure Process Challenges

- Information changes over preparation time-frame; need to ensure latest information captured prior to market release
- Expert departments/contributors taking responsibility/ownership for disclosure versus assuming Debt Management function
- Getting the right people at the table during document review sessions



Mitigations

- **Background information communicated when requests for information or review made (e.g., role, importance, DPWG Controls & Procedures, timing, training link)**
- **If complex disclosure, or department struggling, schedule conference call with Transaction Disclosure Counsel and Financing Group members**
- **Certification process**
 - **Helps ensure contributing departments understand they are responsible for ensuring accuracy, and communicating updates**
 - **May require check-backs to contributing departments, and re-fresher certifications**
- **DPWG to sign-off on all changes—broad scope of knowledge base can identify any gaps**
- **Comprehensive Disclosure Training**
 - **CFO communication to operating departments asking directors to identify appropriate staff and make training mandatory**
 - **Video training and establish link for future agency-wide access**
 - **Stick to regular schedule. Incorporate any developing trends in the training.**



Secondary Disclosures

Annual Reports

- Annual reports due date included in post-issuance compliance program
- Initial communication to contributing departments--same as primary disclosures
- If new transaction/Annual Report, outside disclosure counsel confirms content
- DPWG review
- Follow continuing disclosures check-list and EMMA filing procedures
- Book into historical filings database



Secondary Disclosure

Material Events

- Where possible, calendar. For example, Financing Schedules should include any defeasance and bond call material event filings
 - Mindful of 10 day event filing requirement for bond offerings post Dec 2010
- Material event filings reviewed by City Finance Attorney and General Outside Disclosure Counsel, and signed by CFO
- All filings booked into historical filings database

Secondary Disclosure Challenges and Mitigations

Challenges

- Awareness of material events and timing. More challenging than annual reports, which occur on an established annual schedule

Mitigations

- Assign responsibility – Debt Management, with assistance of DPWG
- Assign monitors where helpful – e.g., ratings changes
- Training for new Debt Management staff
 - Within first 90 days, review biennial disclosure training video and department procedures on disclosure
- Timely discussion of questions and issues that may arise with City's General Disclosure Counsel

MUNICIPAL MARKET DISCLOSURE: THE DEVELOPMENT AND ADMINISTRATION OF DEBT DISCLOSURE POLICIES

Administering and Maintaining a Disclosure Policy

David Brodsky, Managing Director, KNN Public Finance

March 19, 2008

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Why Policies Tend to Fail

- Focus on restating the obvious
 - The preservation of principles
- Provide a false sense of comfort
 - The safety of principles
- Walking the walk is harder than talking the talk

Why Policies Can be Powerful

- Guiding principles are a place to start
 - Not every life lesson needs to be learned from experience
 - All modern cultures maintain a written scripture of inherited wisdom
 - Policies provide a place to record lessons for future generations
- The discipline of putting it in writing provides an opportunity for difficult thinking
- Board approved policies provide protection against political expediency
- Regulators, rating agencies and other second-guessers love written policies

*“Good judgement is
the result of experience and
experience the result of bad
judgement”*

--Mark Twain

So What do We do Now?

- Education
 - Congratulations for being here. You passed.
 - CDIAAC provides good resource materials (can/will add more)
- Putting something in writing (a policy) will be the next step, but it is only the beginning
- Create your tribe: the working group
 - No single individual has the complete picture
 - Debt manager is the quarterback
 - Primary reviewers and resources
 - Find your experts
- Due diligence
 - The scheduled due diligence meeting done for the underwriters often tends to lay between ritual and a joke
 - While the questions are good, they come too late
 - A good checklist of concerns is a good initial framework
 - Working group meeting earlier in the process is where the action should be
 - Open, freewheeling, exploratory conversations is where new thoughts might emerge, where dots might become connected that previously were not

Disclosure Practice “To Do” List

- Ask hard questions
 - Ask yourself, “what keeps me up at night about my organization?”
 - Risks
 - Stresses and vulnerabilities
- Be prepared for when bad things happen to good governments
 - What will you wish you had said if stuff were to hit the fan
- Disclosure should not be seen as marketing, but rather as Exhibit 1 in your and your agency's defense
 - Bad things happen to good bureaucrats too
- But good disclosure is balanced and accurate
 - Overstating the negative is dishonest
 - The disclosure document should not read like the side effects of a prescription drug
- Different strokes for different folks
 - Occasional issuers and regular issuers have different needs
 - But only one bond issue will make you a habitual discloser thanks to continuing disclosure

Some Concluding Thoughts

- What is the relationship between the audited financial statement (or CAFR) and the official Statement (the OS)?
 - Still a somewhat strained relationship
 - In some ways, the OS is a result of the fact that much of the CAFR is either useless or incomprehensible
- *Praxis*: the process by which a theory, lesson, or skill is enacted, embodied, or realized
 - This concluding panel is intended to be a conversation on the dynamic relationship between the written disclosure document and the day-to-day practice of disclosure
 - Good disclosure is policy, practice and the continuing feedback loop
 - Review your disclosure practices
 - Review the policy to incorporate the lessons learned
 - Repeat
- We are still in the era of cave paintings when it comes to disclosure policy
 - Perhaps someone in this room will be our Michelangelo?