Employing a Debt Management Policy

Practices Among California Local Agencies

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CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION | CDIAC No. 14.02

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

The California Debt and Investment Advisory Commission (CDIAC) provides information, education, and technical assistance on debt issuance and public fund investments to local public agencies and other public finance professionals. CDIAC was created to serve as the state's clearinghouse for public debt issuance information and to assist state and local agencies with the monitoring, issuance, and management of public debt.

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INTRODUCTION

Public agencies develop and apply debt management policies to ensure that debt is issued and managed prudently. This practice is advocated by the Government Finance Officers Association (GFOA) which published and subsequently updated best practice guidelines for debt management policies in 1995, 2003, and 2012.[1] These guidelines along with other GFOA publications recommend that a formal debt management policy, guiding debt issuance, should be a part of a public agency's debt administration.[2] The GFOA endorsed the use of a debt management policy to improve the quality of decisions, articulate policy goals, provide guidelines for the structure of debt issuance, and demonstrate a commitment to long-term capital and financial planning.

To assess the extent to which local public agencies in California have adopted GFOA's recommendations the California Debt and Investment Advisory Commission (CDIAC) compared the debt management policies adopted by a sample of local agencies against GFOA's best practice guidelines. Specifically, the study assessed the degree to which local agency debt management policies addressed DEBT LIMITS, DEBT STRUCTURING, DEBT ISSUANCE, and DEBT MANAGEMENT. Local agencies that embrace these best practices will be more likely to produce policies that can be understood, approved, and implemented by the local agency's staff, elected officials, and financial management, strengthening the consistency and credibility of the financial decisions made related to the debt management process.

This study reveals that the majority of the cities, counties, and school districts issuing debt between January 2001 and January 2012 have not adopted debt management policies. Based on a significantly valid sampling of issuers, 61 percent of county issuers, 49 percent of city issuers, and 23 percent of school district issuers have adopted policies.

Furthermore, the study finds through a review of the contents of 84 individual debt management policies that county issuers more consistently complied with GFOA's best practice guidelines while school district issuers were the least likely to follow the guidelines. Although the findings of this portion of the review cannot be statistically projected on the practices of all city, county, and school district issuers, the study does offer an opportunity to consider the structure and content of GFOA's guidelines and to affirm their purpose and utility. In its analysis of debt policies, CDIAC realizes that the GFOA best practice guidelines do not universally apply to all types of issuers or all types of debt. But as a standard, these guidelines and GFOA's supporting publications provide any public agency a comprehensive and easy-to-use framework to develop a debt management policy. Public agencies that issue debt are more likely to protect the interests of the agency and the public if they give thought to the structure, use, and administration of a debt program in advance of entering the market.

BENEFITS OF A DEBT MANAGEMENT POLICY

A local agency's debt management policy can assist its debt managers to make decisions and support efforts to identify conflicts, inconsistencies, and gaps in a local agency's approach to project finance and debt management. A debt policy can also be instrumental in setting a proper balance between limits on the use of debt financing and providing sufficient flexibility to respond to unforeseen circumstances and opportunities. Potential benefits of a formal debt policy include:

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[1] Best Practices, Debt Management Policies, available at www.gfoa.org/index.php?option=com_content&task=view&id=1573

[2] The Government Finance Officers Association also published "Elements of a Comprehensive Local Government Debt Policy", Rowan Mirada, Ronald Picur, Doug Straley, *Government Finance Review* Vol. 13 Nbr. 5, (October 1997) and *A Guide for Preparing a Debt Policy*, Patricia Tigue, Government Finance Officers Association (Chicago, Illinois, 1998)

- Supporting financial decisions that are transparent and consistent.

- Establishing standard operating procedures to guide daily financial activities.

- Providing performance measures and limits based on predetermined levels and benchmarks.

- Providing justification for decisions.

- Providing an interface between capital planning, long term financing objectives, and daily operations.

- Focusing on the overall financial plan in contrast to individual issues.

- Proactively safeguarding public agencies from making unsuitable debt related decisions.

- Providing consistency and instruction to new and transitioning staff.

- Establishing an effective management mechanism for post-issuance compliance.

Lacking a formal set of well-understood and well-communicated policies, issuers may run into problems in both the issuance and administration of debt. In the absence of policies, issuers may fail to control the type, structure, and maturity of debt being issued. They may enter into service contracts that are not well understood and potentially harmful. And they may fail to meet federal disclosure and tax compliance obligations.

Failures such as these may result in adverse outcomes for public agencies. To the extent that a lack of policies leads to the injudicious use of debt, poorly structured debt or repayment schedules, or the failure to meet disclosure or tax obligations, the issuer may be penalized by regulators, downgraded by ratings agencies or, at minimum, lose investor and taxpayer confidence. Equally painful are the implications of a poorly managed debt portfolio to the agency's fiscal conditions, including cash shortfalls, missed debt service payments, or the inability to call or refund debt to take advantage of changing market conditions. Well-constructed and well-communicated policies protect the interests of the public as well as the public servants who, acting in good faith, seek to meet the needs of their constituents.

STUDY METHODS

Sampling

In assessing the application of GFOA's best practices guidelines for debt management policies, CDIAC reviewed policies adopted by cities, counties, and school districts in California that issued debt during the ten-year period between January 2002 and January 2012. Fifty (50) counties, 310 cities, and 666 school districts issued debt during this period. From this population of issuers, CDIAC randomly selected 230 issuers to study, including 33 counties, 73 cities, and 124 school districts, to produce a statistically significant sample.[3] This sampling method enables the results to be projected on the population of all city, county, and school district issuers selling debt during the study period.

Data Collection

CDIAC sought to obtain the most current version of debt management policies adopted by the cities, counties, and school districts composing the sample set. This often entailed a two-step process. First, staff visited each local agency's website to find the agency's debt policy. If the agency had not posted a document identified as a debt policy to their website, staff contacted the agency directly to obtain a copy. As a result, the analysis conducted here was based only on documents identified by the agencies themselves as their debt policies.

[3] The sample produced a confidence level of 95 percent with a margin of error of plus or minus 10 percent. This means that 95 out of 100 times the sample CDIAC selected from all issuers will fall within a confidence interval of plus or minus 10 percent.

Figure 1

DEBT MANAGEMENT POLICIES SAMPLED BY TYPE OF ENTITY

AGENCY TYPE	SAMPLE SIZE	POLICIES COLLECTED	% OF POLICIES COLLECTED
Cities	73	36	49.3
Counties	33	20	60.6
School Districts	124	28	22.6

Of the 230 issuers in the sample, CDIAC obtained policies from 36 cities, 20 counties, and 28 school districts (Figure 1).

Evaluating the Content of Local Agency Debt Policies: Scoring Design and Scoring Procedures

The GFOA's best practice guidelines for debt management policies contain four (4) categories of information. The categories address specific content with respect to the agency's policy for: DEBT LIMITS, STRUCTURING, ISSUANCE AND MANAGEMENT (Figure 2). Within the best practice categories, the GFOA identifies a list of 30 elements that further detail the content that should appear in an agency's debt management policy. To assess the compliance of cities, counties, and school districts in California with GFOA's best practices for debt management policies, CDIAC tested the sample set of debt policies against these 30 elements. In addition, staff also determined if each policy was dated and approved by an oversight body.

Scoring of each debt management policy was carried out using a standardized score sheet (Appendix 1). CDIAC staff divided the 84 sample policies between two teams composed of two research staff each. Staff scored each debt policy against the GFOA recommended elements using the standardized score sheet. Staff assigned one point to each element that appeared in the policy.[4] If the policy did not address the element, it received a zero. In this way, a debt policy received between 0 to 30 total points depending on the number of elements considered by the policy.

Since debt management policies are text-based, they are subject to differing interpretations. To control for this, the scoring of each policy was internally and externally validated. Scorers reviewed a set of policies and then exchanged the policies with another scorer to validate the initial scores. Next, each policy was exchanged with another team of two scorers to be validated independently by each of these scorers. After each step, differences were reconciled within the team and then between the two teams through consultation. In the event a debt policy element was scored differently, a consensus opinion was made on the final score based on a joint review and agreement between all team members. After the review and reconciliation process was completed, each scorer's score sheet was input into an Excel spreadsheet. This was then reviewed by another staff member – one not participating in the scoring process – to check for accuracy and to identify any irregularities in the tabulation of scores.

STUDY RESULTS

Likelihood of City, County, or School District Issuers to Adopt Debt Management Policies

CDIAC found that compliance among cities, counties, and school district issuers to GFOA's best practice guidelines for debt management policies

[4] Scoring was based on the presence or absence of an element and not on the depth or breath of the discussion.

Figure 2

GFOA BEST PRACTICE GUIDELINES
CONTENT CATEGORIES, SUBCATEGORIES, AND ELEMENTS

	GFOA BEST PRACTICE CATEGORIES	GFOA BEST PRACTICE SUBCATEGORY	ELEMENTS OF DEBT MANAGEMENT POLICY
DEBT LIMITS	Debt Limits. The Policy should consider setting specific limits or acceptable ranges for each type of debt. Limits generally are set for legal, public policy, and financial reasons.	Purpose for which debt may be issued (Purpose Limits).	Restrictions and Uses
			Sources of Repayment
			Useful Life, Matching Asset Life
			Pay Go, Integration with Capital Plan
		Legal debt limitations, or limitations established by state, local policy (Policy Limits).	Legal/Statutory Limits
			Fiscal Condition, Ratios
			Debt Service Capacity
		Types of debt permitted to be issued and criteria for issuance (Debt Type Limits).	Short and Long Term
			Fixed and Variable
			Other Financing
DEBT STRUCTURING	Debt Structuring. The Policy should include specific guidelines regarding the debt structuring practices for each type of bond.	Structural features considered.	Call Features
			Maturity
			Credit Enhancement
			Derivative Products
DEBT ISSUANCE	Debt Issuance. The Policy should provide guidance regarding the issuance process, which may differ for each type of debt.	Credit objectives.	Ratings
			Relationships with Credit Raters
		Method of sale.	Competitive vs. Negotiated
			Direct Loans
			Private Placements
			Premium Structures
		Selection of external financial professionals.	Request for Proposal (RFP)
			Contract Evaluation and Terms
			Conflict of Interest
		Refunding of debt.	Reasons for Refunding
DEBT MANAGEMENT	Debt Management. The Policy should provide guidance for ongoing administrative activities.	Disclosure (primary and secondary market).	15c2-12 Requirements
			Initial and Continuing
			Obligated Person to Communicate
		Investment of bond proceeds.	Compliance with Federal Tax Law
			Arbitrage Requirements
			Direct to Investment Policy

Figure 3

COMPLIANCE WITH GFOA BEST PRACTICE GUIDELINES
SCORE RESULTS BY TYPE OF ISSUER

DEBT POLICY SCORE	CITIES		COUNTIES		SCHOOL DISTRICTS	
	# OF POLICIES	% OF TOTAL WITHIN ISSUER GROUP	# OF POLICIES	% OF TOTAL WITHIN ISSUER GROUP	# OF POLICIES	% OF TOTAL WITHIN ISSUER GROUP
15 or more Elements Addressed in Policy	8	22.2	11	55.0	1	3.6
Less than 15 Elements Addressed in Policy	28	77.8	9	45.0	27	96.4
TOTAL	36		20		28	

is poor. County issuers are more likely to have adopted policies. Nearly 61 percent of county issuers have adopted policies. Forty-nine (49%) percent of city issuers have adopted policies while just 23 percent of school district issuers did.

Fifty-five (55%) percent of the county issuers that had adopted debt policies included at least half of the elements of a complete debt policy as recommended by the GFOA (Figure 3). Of the cities that had adopted policies, only 22 percent had incorporated more than 50 percent of the GFOA's recommended elements. School district issuers were the least likely of the three categories of issuers to adopt debt management policies, but even if they did, less than four (4%) percent addressed half of the GFOA elements.

Compliance with GFOA's Best Practice Guidelines by Categories

GFOA identifies four main categories of information to be included in a public agency's debt management policy. These include DEBT LIMITS, DEBT STRUCTURING, DEBT ISSUANCE, and DEBT MANAGEMENT. CDIAC used this framework to analyze 84 debt policies collected from cities, counties, and school districts. While the results of this analysis are not statistically significant and cannot be projected on the population of city, county, and school district issuers that have debt management policies, they do reveal something about the adherence of issuers to GFOA's best practice recommendations. The following discussion addresses each category.

DEBT LIMITS

The GFOA guidelines provide for three subcategories within the DEBT LIMITS category: Purpose of Issue, Legal Limitations, and Types of Debt and Criteria for Issuance. These subcategories address the specific legal, policy, and financial parameters of each type of debt and are broken down into a total of 10 elements. Figure 4 reports on the compliance of city, county, and school district issuers to GFOA's recommended content for this category.

PURPOSE OF ISSUE. The majority of city, county, school district issuers included restrictions on the types of projects that could be financed as well as limits on the total amount that could be borrowed. These limits were often described in broad terms. Most policies restricted borrowing to capital-related projects with a useful life of at least five years (limited life equipment, computers, and vehicles) and prohibited debt financing to cover general operating expenses. In contrast to city and county policies, school district policies seldom addressed the sources of repayment of debt, the useful life of improvements financed with debt, or pay-as-you-go financing options.

POLICY LIMITATIONS. Legal/statutory limits dictated by state and local law, categories of acceptable uses by debt type, revenue flows to service

Figure 4

PERCENT OF DEBT MANAGEMENT POLICIES ADDRESSING DEBT LIMIT ELEMENTS, BY TYPE OF ISSUER

		THE ELEMENTS OF DEBT MANAGEMENT POLICIES	PERCENT OF REVIEWED POLICIES ADDRESSING ELEMENTS		
			CITY	COUNTY	SCHOOL DISTRICT
DEBT LIMITS	PURPOSE OF ISSUE	Restrictions and Uses	80.6	95.0	78.6
		Sources of Repayment	50.0	70.0	14.3
		Useful Life, Matching Asset life	86.1	80.0	32.1
		Pay Go, Integration with Capital Plan	52.8	70.0	3.6
	DEBT LIMITS	Legal/Statutory Limits	30.6	75.0	50.0
		Fiscal Condition, Ratios	47.2	70.0	3.6
		Debt Service Capacity	44.4	70.0	7.1
	TYPE AND CRITERIA	Short and Long Term	47.2	75.0	7.1
		Fixed and Variable	25.0	45.0	3.6
		Other Financing	41.7	90.0	21.4

the debt, and the agency's overall financial condition drive a local agency's policies with respect to the use of debt. Seventy-five (75%) percent of county policies reviewed mentioned the need to conform to state, local or other legal limitations based on the type of project or financing instrument used. Half of school district policies referenced their authority, but few of them addressed measures of fiscal condition or considered the agency's capacity to take on debt.

TYPES OF DEBT AND CRITERIA FOR ISSUANCE. The determination to issue short- or long-term debt as a fixed or variable structure should be based on the agency's financial structure, expertise, and a careful cost/benefit analysis. When interest rates are low, variable rate debt normally constitutes a smaller role in a local agency's debt portfolio and vice versa when rates are high. As a matter of course, a local agency's debt management policy should prohibit the use of variable rate debt for arbitrage purposes. County issuers generally recognized these structural features in their policies while city and school district issuers were less likely to do so.

DEBT STRUCTURING

The GFOA guidelines recognize one subcategory under the DEBT STRUCTURING category, which should make reference to and discuss the structural aspects of each type of debt to be issued by the local agency (Figure 5). Structural characteristic to be considered should include maturity limitations, level debt service requirements, premium and discount structures, the use of credit enhancement, and facilities used to retire debt early. As stressed in the debt limits category above, GFOA recommends that local agencies include a reference to the types, levels, and structure of the debt financing. These would include the use of different maturities, call options, and derivative (swap) strategies based on market conditions. They should also reference the need to adequately match debt service payments to tax and fee revenues.

Debt structuring elements were the least commonly addressed elements of the policies reviewed. More than one-third of county policies included these elements whereas city policies frequently addressed maturity and the use of credit enhancement, but did not address call features or derivative products. Notably, more than 40

Figure 5

PERCENT OF DEBT MANAGEMENT POLICIES ADDRESSING DEBT STRUCTURE ELEMENTS, BY TYPE OF ISSUER

		THE ELEMENTS OF DEBT MANAGEMENT POLICIES	PERCENT OF REVIEWED POLICIES ADDRESSING ELEMENTS		
			CITIES	COUNTIES	SCHOOL DISTRICTS
DEBT STRUCTURING	STRUCTURAL FEATURES	Call features	13.9	35.0	3.6
		Maturity	36.1	45.0	42.9
		Credit Enhancement	41.7	40.0	3.6
		Derivative Products	19.4	35.0	3.6

percent of school district policies recognized maturity limits. This was an artifact of the scoring methodology more than the content of school district issuer's debt management policies.[5]

DEBT ISSUANCE

The GFOA's DEBT ISSUANCE category provides recommendations on the method of sale, selection of the financing team, importance of a strong credit rating, and need and requirements for refunding existing debt (Figure 6).

CREDIT OBJECTIVES. The GFOA recommends setting minimum credit rating standards to be achieved along with developing relationships with ratings agencies through good communication and disclosure. Debt policies that declare the intent to routinely communicate with ratings agencies will be viewed favorably by ratings agencies. An issuer that establishes and implements a sound financial plan will reduce the probability of making decisions that will negatively impact credit ratings on existing and future debt. The greater majority of the county policies reviewed addressed credit ratings and relationships with credit rating agencies. The policies of school district issuers seldom addressed these two elements.

METHOD OF SALE. The GFOA recommends that the decision to sell through a negotiated or competitive offering should be based on market conditions at the time of issue with the goal of achieving the lowest cost of funds. Local agencies differ in their use of competitive and negotiated sales methods and for a variety of reasons. The GFOA believes that general obligation bonds or those with a strong repayment stream, an "A" or better rating, and without complicated features, should be sold competitively. However, many factors favor the use of a negotiated sale method, including placing a large volume of bonds at a set price. With respect to method of sale, the city, county and school district policies reviewed did address the type of sale, but less frequently addressed the other elements including the use of private placements or direct loans. None of the policies reviewed addressed the use of premiums, either with respect to the acceptability of a premium or the purposes to which a premium may be applied.

SELECTING A FINANCING TEAM. Local agency debt issuance requires the assistance of a team of financing professionals to successfully complete the financing. The team may include an underwriter, financial advisor, bond and disclosure counsel, trustee, and other consultants. The

[5] The debt management policies of school district issuers commonly referenced only their statutory authority. Since these code sections state the legal term on bonds, scorers gave these policies credit for addressing maturity in their policies.

Figure 6

PERCENT OF DEBT MANAGEMENT POLICIES ADDRESSING DEBT ISSUANCE ELEMENTS, BY TYPE OF ISSUER

		THE ELEMENTS OF A DEBT MANAGEMENT POLICIES	PERCENT OF REVIEWED POLICIES ADDRESSING ELEMENTS		
			CITY	COUNTY	SCHOOL DISTRICT
DEBT ISSUANCE	CREDIT OBJECTIVES	Ratings	50.0	70.0	7.1
		Relationships with Credit Raters	38.9	60.0	3.6
	METHOD OF SALE	Competitive vs. Negotiated	50.0	45.0	25.0
		Direct Loans	2.8	10.0	0.0
		Private Placements	11.1	30.0	3.6
		Premium Structures	0.0	0.0	0.0
	SELECTION OF PROFESSIONAL	Request for Proposal (RFP)	22.2	20.0	7.1
		Contract Evaluation and Terms	13.9	20.0	3.6
		Conflict of Interest	11.1	25.0	7.1
	REFUNDINGS	Reasons for Refunding	44.4	75.0	10.7

GFOA suggests that the method of selection and the local agency's relationship with the financing team is crucial to the success of the sale. Furthermore, GFOA recommends that professionals be hired through a competitive RFP process. Consistent with these recommendations, GFOA's best practices for debt policies identify three related elements: Did the debt policy address the use of an RFP process in hiring the finance team? Did the policy address guidelines for contract evaluation of hired professionals? and, Did the policy address conflicts of interest among members of the financing team? Approximately one-fifth of the county policies reviewed addressed the selection of financing professionals.

REFUNDING OF DEBT. When advantageous, public agencies should consider refunding or restructuring outstanding debt to achieve debt service savings or achieve other financial benefits. The financial analysis determining the cost effectiveness of the refunding should be undertaken with a target savings goal to be achieved, expressed as a percentage of the principal outstanding. In some cases, concerns with financial flexibility and risk – refunding variable rate debt, terminating an interest rate swap, refinancing short term debt – should be evaluated in determining benefits other than purely quantitative factors derived from a refunding. Any savings from current or advance refunding must be made in accordance with legal and tax considerations. Three-quarters of the county policies reviewed included a section on refunding.

DEBT MANAGEMENT

The GFOA DEBT MANAGEMENT category provides recommendations on initial and continuing disclosure along with the investment of bond proceeds (Figure 7).

DISCLOSURE. Once debt is issued, local agencies are required by the Securities Exchange Commission's Rule 15c2-12 to make ongoing disclosures to investors. The Municipal Securities Rulemaking Board's (MSRB) Electronic Municipal Market Access (EMMA) system provides issuers an easy way to do so. These disclosures include annual financial reports and any "material events" that may occur during the life of the outstanding bonds. The GFOA best practices recommend that the public agency's finance staff become knowledgeable about its continuing disclosure requirements to ensure the accurate and timely submission of this information. At the same time, public agencies that have issued debt must maintain their communications with stakeholders, continue to account for funds, properly invest bond proceeds, and monitor compliance with federal tax-exempt bond regulations. The policies that discussed disclosure did so in general terms often merely stating their obligations to submit information to EMMA and maintain an open channel of communication with the MSRB and other stakeholders. Among the school district policies reveiwed however, there was little information provided on the process and roles responsible for making market disclosures.

INVESTMENT OF BOND PROCEEDS. Any investment of bond proceeds by the local agency must conform to California law governing the investment of public funds and with the bond covenants executed by the agency. Furthermore, the local agency must comply with federal arbitrage restrictions. Failure to do so may lead to the forfeiture of the tax-exempt status on the debt. In addition to maintaining written procedures with regard to tax compliance, the local agency should maintain an appropriate system of accounting to calculate bond investment arbitrage earnings in accordance with the Tax Reform Act of 1986 and United States Treasury regulations. Arbitrage requirements and compliance with federal tax laws on the investment of bond proceeds was mentioned in half of the county policies reviewed. City issuers addressed arbitrage, but less frequently addressed compliance with tax law or made mention of the city's investment policies. Among the school district policies reviewed, issuers seldom mentioned either of these topics.

Figure 7

PERCENT OF DEBT MANAGEMENT POLICIES ADDRESSING DEBT MANAGEMENT ELEMENTS, BY TYPE OF ISSUER

		THE ELEMENTS OF A DEBT MANAGEMENT POLICIES	PERCENT OF REVIEWED POLICIES ADDRESSING ELEMENTS		
			CITY	COUNTY	SCHOOL DISTRICT
DEBT MANAGEMENT	DISCLOSURE	15c2-12 Requirements	19.4	55.0	3.6
		Initial and Continuing	41.7	65.0	10.7
		Obligated Person to Communicate	16.7	55.0	3.6
	INVESTMENT OF PROCEEDS	Compliance with Federal Tax Law	13.9	55.0	7.1
		Arbitrage Requirements	44.4	50.0	10.7
		Direct to Investment Policy	5.6	15.0	3.6

Review and Approval Practices

In addition to the elements associated with the GFOA best practices, CDIAC analyzed how the city, county, and school district policies were presented. Policies were either "stand-alone" documents or they were published as a section within a more comprehensive finance policy. CDIAC also identified several policies that made exclusive reference to statutes but failed to provide additional discussion even of the meaning of the statute. Three (3) city policies, one county policy, and two school district policies cited only the statutes pertaining to debt.[6]

CDIAC also examined the city, county, school district policies to determine if they were being approved and updated on a scheduled basis. Establishing a process for approving and updating a debt management policy suggests that the agency recognizes the role the policy plays in managing its financial and organizational affairs. The policies were also inspected to determine if they were dated and if they included a process for approving and updating the policy.

Counties and school districts policies were likely to publish their debt management policies as stand-alone documents (Figure 8). Less than 30 percent of cities did so. Seventy-two (72%) percent of the city policies reviewed included their debt management policies within another document, typically in a more comprehensive finance or accounting administration plan. The fact that counties often published debt management policies as an independent document may play into why these policies were more often consistent with GFOA's best practice guidelines and, therefore, received higher scores in CDIAC's review. The policies of the vast majority of school districts were one-page documents describing the Education Code section that authorizes the issuance of debt by school districts. These policies were the least compliant with the recommended GFOA best practices.

The majority of city, county, and school district policies were dated. However, few of them provided a mechanism for updating the policy. More than 60 percent of city and county policies reviewed recognized a process for approving the policy while only 43 percent school districts policies did so.

FINAL DISCUSSION

With the wealth of debt policy guidance provided by the GFOA, the importance of a debt policy to ratings agencies, the need for compliance with MSRB disclosure practices, and the obligation of local agencies to issue debt at the lowest cost to tax and ratepayers – *a debt management policy should be an essential component of a local agency's debt program*. The GFOA's best practice guidelines and supporting publications on debt management policies have provided a comprehensive framework for public agencies. While the GFOA has done most of the "heavy lifting", too few public agencies in California have adopted debt management policies. Based on this statistically valid sampling, the study demonstrates that 49 percent of city and 61 percent of county issuers have adopted debt management policies. Even though school districts are the highest volume issuers of debt in the state, only 23 percent of them have adopted a debt management policy.

CDIAC's content review of local agency debt policies, although not statistically representative of all of the debt policies of cities, counties, and school districts that have issued debt between 2002 and 2012, revealed that adherence to GFOA's content recommendations varied substantially. School district policies were the least compliant with GFOA's best practice guidelines. Even though it may be true that each of the 30 elements in GFOA's guidelines may not apply to all types of issuers or types of

[6] If the referenced statute addressed the element regardless of whether the policy provided additional discussion it was scored as having addressed the element.

Figure 8

PROVISIONS FOR APPROVAL AND UPDATE, BY TYPE OF LOCAL AGENCY

	PERCENT OF CITY POLICIES	PERCENT OF COUNTY POLICIES	PERCENT OF SCHOOL DISTRICT POLICIES
Policy was a stand-alone document	27.7	80.0	89.2
Policy was a section in another plan	72.2	20.0	10.7
Policy was dated	72.2	80.0	89.3
Policy provides for updates	16.7	35.0	7.1
Policy identified an approval process	61.1	65.0	42.9

debt, the failure of cities, counties, and school districts to embrace GFOA's best practice guidelines raises some significant questions about the strategic thinking these issuers are giving to the use of debt and the guidance policy makers within these agencies are providing to their staff and constituents regarding debt financing. CDIAC encourages local agencies to develop debt management policies that conform to GFOA's guidelines even if issuers merely recognize in their policies that particular elements do not apply to their debt programs. Furthermore, CDIAC recommends that public agencies undertake a process to update and approve their debt management policies as needed.

As an end note, the study did find some exemplary debt management policies that conform to the spirit of the GFOA's best practices. The City of Fresno, the County of Butte, and the Los Angeles Unified School District can serve as examples for other local agencies seeking to employ the GFOA best practices. Appendix 2 references these policies and the location within each policy of GFOA's best practice guideline elements.

Appendix 2 also provides other resources that may help issuers understand the need for including and addressing each of the 30 GFOA elements within their debt management policies.

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Appendix 1

STANDARDIZED SCORE SHEET

NAME OF ORGANIZATION	TYPE	REVIEWER

SECTION	CONTENT	Y=1	PAGE #(S)
Purpose for which debt may be issued.	Restrictions and Uses		
	Sources of Repayment		
	Useful Life (Matching Asset Life)		
	PayGo, Timing, Integration with CapPlan		
Legal debt limitations, or limitations established by state, local policy.	Legal/Statutory Limits		
	Fiscal Condition, Ratios		
	Debt Service Capacity		
Types of debt permitted to be issued and criteria for issuance.	Short and Long Term		
	Fixed and Variable		
	Other Financing		
Structural features considered.	Call Features		
	Maturity		
	Credit Enhancement		
	Derivative Products		
Credit objectives.	Ratings		
	Relationships with Credit Raters		
Method of sale.	Competitive vs. Negotiated		
	Direct Loans		
	Private Placements		
	Premium Structures		
Selection of external financial professionals.	RFP		
	Contract Evaluation and Terms		
	Conflict of Interest		
Refunding of debt.	Reasons for Refunding		
Disclosure (primary and secondary market).	15c2-12 Requirements		
	Initial and Continuing		
	Obligated Person to Communicate		
Investment of bond proceeds.	Compliance with Federal Tax Law Provisions		
	Arbitrage Requirements		
	Direct to Investment Policy		
	TOTAL		
FORMAT	Included as Stand-Alone		
	Included as a Section in Other Plan		
	Included as Reference to Other Policy		

NOTES

REVIEWER 1

REVIEWER 2

Appendix 2

EXAMPLES OF CITY, COUNTY, SCHOOL DISTRICT POLICIES THAT COMPLY WITH GFOA BEST PRACTICE GUIDELINES

ELEMENT	CITY OF FRESNO		BUTTE COUNTY		LOS ANGELES UNIFIED SCHOOL DISTRICT		GFOA AND CDIAC DEBT MANAGEMENT RESOURCES
	INCLUDED	PAGE #	INCLUDED	PAGE #	INCLUDED	PAGE #	
Restrictions and Uses	✓	9	✓	9,10	✓	5	http://www.treasurer.ca.gov/cdiac/debtpubs/primer.pdf
Sources of Repayment	✓	9	✓	7	✓	6	
Useful Life	✓	14-15	✓	8	✓	6	
PayGo, Timing, CapPlan	✓	12,15	✓	7,8	✓	6,7	
Legal/Statutory Limits	✓	12,7	✓	1,5,11	✓	7,10	
Fiscal Condition, Ratios	✓	13	✓	6	✓	10,11,13	
Debt Service Capacity	✓	13	✓	6,9	✓	12	
Short and Long term	✓	15	✓	11,10,17	✓	5	
Fixed and Variable	✓	11,24	✓	21	✓	11	Using Variable Rate Debt Instruments (1997 and 2010) revised
Other Financing	✓	14	✓	12,13	✓	14	Selecting and Managing the Method of Sale of State and Local Government Bonds (1994 and 2007)
Call features	✓	25	✓	23	✓	9	
Maturity	✓	10	✓	20	✓	8	
Credit Enhancement	✓	26	✓	22	✓	9	http://www.treasurer.ca.gov/cdiac/debtpubs/2003/062003bondins.pdf
Derivative Products	✓	17	✓	25	✓	9	Use of Debt-Related Derivatives Products and the Development of a Derivatives Policy (1995, 2003, 2005 and 2010) revised
Ratings	✓	8	✓	22	✓	15	Maintaining an Investor Relations Program (1996, 2003 and 2010)
Relationships with Ratings Agencies	✓	8	✓	22	✓	2,15	
Competitive vs. Negotiated	✓	23	✓	17	✓	9	Pricing Bonds in a Negotiated Sale (1996, 2000, and 2010)
Direct Loans	○	–	✓	17	○	–	
Private placements	✓	23	✓	17	✓	9	
Premium structures	○	–	○	–	○	–	
Request for Proposal (RFP)	✓	20	○	–	✓	17	http://www.treasurer.ca.gov/cdiac/issuebriefs/101994.pdf
Contract Evaluation and Terms	✓	20-21	✓	18	✓	17	Selecting Financial Advisors (2008)
Conflict of Interest	○	–	✓	18,32	✓	19	Selecting Underwriters for Negotiated Bond Sales (2008)
Reasons for Refunding	✓	24,25	✓	24	✓	16	Analyzing and Issuing Refunding Bonds (1995 and 2010)
15c2-12 Requirements	✓	22	✓	17,27,28	✓	14,15	Understanding Your Continuing Disclosure Responsibilities (2010) -
Disclosure Initial and Continuing	✓	22	✓	18,27	✓	14,16	
Obligated Person to Communicate	✓	22	✓	18,27,28	✓	17	Maintaining an Investor Relations Program (1996, 2003 and 2010)
Compliance with Federal Tax Law	✓	25	✓	23,29	✓	16	Investment of Bond Proceeds (1996 and 2007)
Arbitrage Requirements	✓	25	✓	23,29	✓	16	
Direct to Investment Policy	✓	25	✓	23	✓	16	

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