



## WEBINAR TRANSCRIPT

### Creating SB 1029-Compliant Local Debt Policies

March 16, 2017

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#### Slide 1 – Creating SB 1029-Compliant Local Debt Policies

00:00

**MARK CAMPBELL:** Good morning, everyone. I'd like to welcome you. I'm Mark Campbell, executive director here at CDIAC, and thank you for participating in our webinar today, *Creating SB 1029-Compliant Local Debt Policies*. We have three very informed, experienced, believe it or not, speakers on this very topic that hope to reassure you of the procedures, the obligations under the newly chapter SB 1029.

We're going to cover a couple of administrative details here initially. Your cover screen provides information about technical issues and the presentation slides, should you want to access them. Captioning service is available. And I will note at the very beginning, our upcoming CDIAC seminar, *Developing and Administering Internal Controls for Bond Accountability*, on May 5th.

And then, secondly, I want to mention if you have questions during the course of the program, you can submit them on the GoToWebinar control panel. Send comments and questions in the box marked "Questions" near the bottom of the control panel. It may take us a bit of time to read those and key our speakers to respond to those, but we will try and handle them, both in an on-flow basis and certainly if we have time at the end of the program. If you need a certificate of attendance, you must be registered and logged into the webinar under your own name. A certificate will be emailed to participants within a week. All right, so let's begin the main set of the program.

#### Slide 2 – Creating SB 1029-Compliant Local Debt Policies

02:07

**MARK CAMPBELL:** SB 1029, Chapter 307, Statutes of 2016 represents a significant advancement in California public finance. Government Code section 8855(i), which requires issuers to report to CDIAC no later than 30 days prior to the sale of debt, their intent to issue debt, now also requires the issuer to certify that it has adopted local debt policies concerning the use of debt and that the proposed debt issuance complies with these policies.

In 2014, CDIAC published a study reviewing the practices of debt issuers in the state of California with regard to debt policies. In that, CDIAC identified significant values to management, staff and the issuing entity in the use and adoption of debt management policies. It noted that it assists debt managers to make decisions; support efforts to identify conflicts, inconsistencies and gaps in the local agency's approach to project finance and debt management; also recognized that debt policies can 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. And that really covers from our perspective the very essential role that policies play in the administration of debt. And with that, and I'm sure that will be reiterated by our speakers today, I'm going to introduce them and turn it over to you.

Tim Schaefer, deputy treasurer, State of California, has executive responsibilities for the State Treasurer's Investment division, which manages, of course as you know, the Local Agency Investment Fund; he oversees the Public Finance division, which manages the State's \$86 billion debt portfolio; and as well the Centralized Treasury

division, which handles the nearly \$2 trillion of payments and the hundreds of bank accounts maintained by the State of California. And that pretty much sums up the entire State functions, I think, with treasuries. Before entering state service, Tim was principal owner of Magis Advisors, a public finance consulting firm in Orange County. He has more than 40 years of experience in the municipal securities industry.

With him, Ron Bennett, chief executive officer with School Services of California, previously served as chief business official for the Long Beach Unified School District, Fresno Unified School District, and ABC Unified School District.

And finally, Albert Reyes, partner with Nossaman LLP, serves as bond counsel, disclosure counsel and underwriter counsel in connection with various public finance matters. His clients include school districts, cities, counties, special districts, transportation authorities, water districts and a variety of public agencies. And with that I'm going to turn it over to our speakers. Tim, I believe you lead off.

**TIM SCHAEFER:** Thank you, Mark. Good morning to my fellow panelists and all of you who are on the telephone. I'm delighted and humbled to be with you and hope that we can provide some information to you this morning that will be useful to you in meeting the requirements of your job and your undertaking.

### **Slide 3 – The Reason**

**06:08**

**TIM SCHAEFER:** It might help here to start at the reason for all of this because I strongly suspect that many, if perhaps not most of you – all of you even – might be sitting there thinking why in the world must we do this and why now? And what was the problem that SB 1029 was trying to address?

SB 1029 was sponsored by Treasurer Chiang in order to promote a healthier, more vibrant, more liquid financial ecosystem in California for all bonds in California. Keep in mind there are 4200 units of local government in our state. There are 90,000 units of local government in the United States, and about half of them have outstanding debt. That outstanding debt amounts now to about \$3.7 trillion, and it is largely held, about 70 percent, by individuals, households, and mutual funds, the shares of which are owned by households. So this is a very unique part of the securities market.

### **Slide 4 – Events and Practices**

**07:42**

**TIM SCHAEFER:** SB 1029 was provoked by the treasurer's observation, recalling that he spent eight years as the state controller before he was elected to this office. It was provoked by three or four basic events that have unfolded over the last 10 or 15 years. First was in 1993, California law was changed so that school districts could use an alternate way of structuring their debt known as capital appreciation bonds (CAB).

Those of us who are as old as I am remember that when we were children, we could buy United States Series E savings bonds. Those were a form of capital appreciation bonds. We could go to a post office or bank, pay \$18.75, and seven years later we would be able to cash in our bond for 25 bucks. That's all a CAB is. There is nothing inherently illegal, immoral or fattening about a CAB. It is a device that is used frequently in the debt securities market. However, I would point out to you that it became a very seductive strategy for some issuers in our state and became politically dangerous when a variety of other factors began to influence the issuance of these devices, and I suspect many of you are going to be familiar with some of those events and the press reporting on them.

I would observe before we move on to the second point, that California leads the way in the United States in the issuance of CABs, by some margin, I might add. So because that became such a significant part of our financial

ecosystem, I think we can all reasonably say that may have contributed to the amount of attention that it drew in the press.

The tip of that spear of that attention was in 2011, a school district in San Diego County issued capital appreciation bonds realizing \$105 million in net proceeds and it would require the repayment of close to a billion dollars in debt over time because of the compounding feature of the capital appreciation bonds. That became a very notorious case, and I think many of you will remember that it provoked the previous treasurer, Treasurer Bill Lockyer, to call for a change in state law to produce a limitation on the multiple of proceeds that could be dedicated to repay CABs that I believe if I'm remembering correctly was embodied in law SB 182 from Senator Ben Hueso if I recall correctly. In a second case, a community college district's voters authorized and sold billions of dollars in debt to refurbish multiple campuses. This was a large community college district. The bonds were authorized and sold and proceeds were spent on projects. And it was later learned that some of the projects were either faulty or had not met the voters' expectations. And as a result, the trustees of this district, the administrative staff of the district, the taxpayers, and the community at large, descended into kind of an unproductive and protracted controversy over the way the community college had used those bond proceeds.

We're not passing judgment on whether or not either of these two transactions that I'm describing were good or bad. That is not our responsibility. That's the responsibility of the communities who authorized that debt to do, so we don't mean to insinuate ourselves in that process. We're trying to produce some venue, if you will, which I will get to in a moment.

Finally, the third point, Mark mentioned this in his opening commentary. In 2014, CDIAC issued a report entitled Employing a Debt [Management] Policy: Practices Among California Local Agencies. That is available on CDIAC's website, and I encourage you, as you ponder what to do in your agency, to take a good look at that because there are some highly instructive, very useful financial guidance information in there.

I'm not going to try to go over that report in all its detail, but the study concluded that overall compliance with national best practices on debt policy – those best practices being articulated primarily by the Government Finance Officers Association (GFOA) – the study concluded that overall compliance in California was poor. Counties were found to be much more likely to have formal policies. School districts, among the three categories that were surveyed, were found to be the least likely to incorporate in their policies at least half of the elements recommended by the GFOA and only 4 percent exhibiting all of the recommended elements. So there's the ecosystem that existed when SB 1029 came along.

## **Slide 5 – Debt Management Policies**

**13:55**

**TIM SCHAEFER:** So let's talk about the view for why debt management policies matter. This is a conversation that the treasurer and his staff had repeatedly with Senator Hertzberg and Senator Hertzberg's staff and consultants in the legislature when SB 1029 was being crafted. And the goal was very simple: a good debt management policy should improve the quality of decisions made by elected officials. Period. That was the goal. It was not to have Sacramento tell you what to do. It was to create a framework that would enable your governing body to produce good policies that would help you do your job and keep your community well-informed and let your elected officials make good decisions.

Clear and reasonable transparent debt policies provide guidelines for the structure of your debt issuance, and probably just as importantly outside of your community, they demonstrate a commitment to long-term capital planning and financial planning, and that pays dividends when you sell bonds.

Employing a debt management policy signals to your rating agencies and to the capital markets, which include your investors, that your government agency is well-managed and therefore, that improves the judgment that you are more likely to meet your debt management obligations in a timely manner when bad things happen in your community, as inevitably they will. However, as you will hear throughout the session, debt management policies should be written with attention to the issuer's specific needs and available financing options, and they are typically implemented through specific operating procedures, which, more likely than not, are going to be unique to your individual agency. They are most definitely not a one-size-fits-all proposition. You are going to hear both Ron and Albert talk about that feature as they go through their part of the presentation.

Finally, we strongly encourage you to have your debt management policies approved by your agency's governing body. That provides a couple of assurances to you and to the community and to your investors. It, one, guarantees that there is a common understanding among your elected officials and you regarding your approach as an issuer to debt financing. And secondly, it supports that modeling, if you will, of good financial management to the rating agencies and finally to the investors that I mentioned earlier.

That is why, those couple of reasons there, is why SB 1029 requires a certification that your governing board – your board of supervisors, city council, school board, board of directors, if you are a special district – has actually adopted the policies. Starting in 2017, now, and going beyond, that will involve checking a box on your initial report to CDIAC. We're going to talk a little bit about that in a moment.

## **Slide 6 – GFOA Debt Management Policy Best Practices**

**17:47**

**TIM SCHAEFER:** Now, on the next page, GFOA debt management policy best practices can be summed up with these five points. I won't go over them in a huge amount of detail, but I'm going to give you enough color on them so that you can see how they tie to the requirements of SB 1029. So this is a high-level summary of a GFOA recommended best practice. It involves these five features: debt limits, debt structuring, debt issuance, debt management, and use of derivative products. We not going to cover that last one today. Let's focus for just a second on those first four.

Limits involve policy goals such as a percent of resources devoted to debt repayment. They are often self-imposed. In some cases, and you school districts know this, they can also be imposed by state law. The State of California does not impose on itself a debt limit, but I will point out to you that the state treasurer publishes every year a report on affordability of the state's debt that's repaid from the general fund and general resources that measures the percent of the state's general fund that's being devoted to debt service. That's an important metric. That report also describes debt as a percentage of personal income, debt as a percentage of economic output or GDP, and other measures, so that the policymakers across the street in the Capitol can understand where they stand in relation to their 49 peers. That's the kind of thing that would be very useful in your local agency to focus on.

The second one is a little bit easier: debt structuring practices. This will have very different applicability depending on what kind of agency you are. A high-growth, rapidly expanding water district may be perfectly capable of

servicing debt which rises over time. Those of you who have issued Mello-Roos bonds know that frequently they are set up so that debt service will rise over time to mirror assumed rates of rise in property values.

So the third thing, then, is debt issuance practices. This is the one that can get a little thorny, and I won't dwell on it at the moment but would encourage questions on it. This involves selection of service providers, determining method of sale, how you measure results of the pricing you get when you negotiate, determining when and how to refund your debt and so forth.

And then finally, and this is the meat of SB 1029, debt management practices: how your bond proceeds are preserved and protected and invested while you are waiting to spend them; how you are tracking the use of proceeds; how you are complying with your tax certificate, which tax assurances you gave to your bond attorney when you signed off.

## **Slide 7 – SB 1029 Debt Policy Requirements**

**21:23**

**TIM SCHAEFER:** Now, let's compare quickly how to cross walk that to SB 1029. SB 1029 talks about these five elements, and I'll just hit the high spots. The purpose for debt and the use can be tied back to GFOA's limits and structuring components. The type of debt that may be issued also goes back to limits and structuring. The relationship of debt and integration with the issuer's capital improvement program or budget incorporates all of those elements but is deliberately a little bit vague because a school district will approach its capital improvement program in perhaps wildly different ways than a water district will. So that why that one has provoked a little bit of consternation, and we're glad to take comments on that later in the webinar.

Policy goals related to the issuer's planning goals and objectives in number four is designed to make sure that in those five elements in the GFOA recommended best practice that the issuer at least consider touching on the idea of sustainability, risk management, liquidity, debt burdens and that sort of thing. And then number five, the internal control procedures, I think you can see that's very obvious, it ties back to debt management and the need for internal controls. I might add before we go on that this last point here is not just about what your trustees do. You school districts need to communicate pretty clearly with your county treasurers because your county treasurers will have an eagle eye on this particular item here, understandably so. Your trustees, depending on what kind of an agency you are, may have a very passive approach to this, and that's why we encourage you to incorporate some discussion of this element into your debt policy.

## **Slide 8 – The Push for Debt Policies**

**23:43**

**TIM SCHAEFER:** So the push for the debt policies, before we hear from the really smart people who are going to talk after me, can be summed up on this page here. There is a wealth of debt policy guidance available from the GFOA. Most of you know because if you've issued debt since 1994, you have had to sign a continuing disclosure agreement which incorporates rules promulgated by the Securities and Exchange Commission to make ongoing financial information available to your investors.

After the financial crisis of 2008, rating agencies went through an overhaul in terms of what they may or may not do. They may not coach you the way they once could. So as a result, debt policies now have to be a bit more of a blunt object to the rating agencies because they can no longer say, "You know, if you just touched up this particular part of your policy we might be able to give you a better rating." That can't happen anymore, so it's good to be

assertive in your debt policies. The GFOA has done most of the heavy lifting on this and unfortunately, as we mentioned, too few public agencies in California have adopted such policies.

That brings you to CDIAC down there in the lower right-hand corner, and that brings us to today: a discussion about the genesis of SB 1029, the implementation of its requirements, but most of all, the opportunity to discuss with you and your colleagues the very real and multiple benefits that your agency might receive from using this very powerful tool.

It's also important, before I turn this over, to remind everybody that developing and implementing a debt policy is not an event, it's a process. As you experiment and discover what the discussion and the debate in your elected officials and in your community means to your community and its service mission, we strongly encourage you to go back and revisit those policies. Consider making an annual ratification of them with your governing board, perhaps as part of your capital improvement budget process so that your board members, your city council members, your supervisors are focused on the fact that these things do interact with the long-term financial decisions that they are going to make.

In California, of course, K-14 education is the largest issuer of general obligation bonds, and this is also where you find a great deal of Mello-Roos financing. General obligation bonds seem straightforward and simple until you back yourself into the meat slicer like that school district did down in San Diego County. Mello-Roos bonds, I think we've all discovered since the late 80s, can be a very powerful tool, very useful in providing facilities in your agency, but they also need maintenance, so they need to be part of your annual look as well.

So I would encourage you to look at the publication that I've already mentioned, the survey of debt policies. Consider also looking at issuance trends so that when you speak to your governing body – CDIAC has already compiled for you and updates it annually, An Overview of Local Government General Obligation Bond Issuance Trends – so you can demonstrate to your governing board how they and your agency fit into this. Okay? For example, last year, 2016, K-14 amounted to 64 percent of the general obligation bonds issued in our state. This is too important a financing source for us to take for granted and ignore. And that's what we're hopeful we can get you to walk away from this webinar to do. And with all of that, I'll now let the experts talk to you and turn this over to Ron Bennett. Ron?

## **Slide 9 – Special Considerations for K-14 Education**

**28:31**

**RON BENNETT:** Good morning, everyone. And thank you, Tim. I thought that was an outstanding introduction to the topic we have at hand this morning. I am honored to be part of this program, both Treasurer Lockyer and Treasurer Chiang have made this a big focus. California debt is a large number that lasts for a long time and it has to be done right. And as you pointed out, school agencies are among the heaviest debt issuers and therefore would benefit the most from policies that enhance the value of that debt to the community that the school district or community college serves.

If we go back a couple of elections, 2012, \$12 billion worth of school bonds approved; 2014, another \$11 billion; and then for the current election, the biggest number we've ever had. So the school districts are going to be issuing large numbers of bonds. Most of these bonds are issued in multiples, so in order to do your policy, you don't want to do it right on the eve of when you need a policy. Those policies are affected by situational judgments that generally turn out to be bad. Most districts and community colleges are going to have a procedure for the adoption



of new policies, where they come out, the public has an opportunity, the boards have an opportunity to have first, second, or even third readings; get the public's input, their comment; and then the policy itself is adopted by the agency. It's meant to have a long life.

Then the implementing regulations from the agency explain in greater detail how that policy will be implemented. So we think of the policy being strictly the domain of the board, governing board, and the implementing regulations being more an administrative function for the superintendent and the staff. So if we can move to the next slide.

## **Slide 10 – The November 2016 Election Results**

**30:54**

**RON BENNETT:** I talked about the November 2016 election having the largest number of – not only largest number of bonds but the largest dollar value and the highest pass rate. So typically we get a pass rate of below 60 percent on regular general obligation bonds that require a two-thirds majority. On the Prop 39 bonds that require a 55 percent majority, we get 72, 74 [percent]. Sometimes, in 2012, it was 80 percent, but this 90 percent pass rate is unprecedented. Most of these issuances are going to have multiple issuances. They will issue what they can spend over a particular period of time and then do another issuance, and there are a lot of good reasons for that should be covered in the policy, by the way.

We at School Services of California – I just want to do a little disclaimer – we do not have any role in the issuance of long-term debt. It's not a skill that we have. We are not licensed to do it. Our interest is on the other side. Good governance for school districts leads to good strong relationships with communities. And over time, we depend on the community to support our district, and they expect us to make public and prudent use of our resources. So I'd describe the relationship between a school district or community college and the public it serves as like a marriage without the possibility of divorce. The agency is going to be there, the public is going to be there, and they're going to have long memories. And when we keep them informed, when we're transparent, when we have a reputation for efficient use and adoption of best practices and so on, when we go back to that well the next time and we ask for that public support, we're much more likely to get it. And that has an impact not only our capital programs but also on our regular operating budget programs and the support we get from the community from this. So the public expects us to be professional, they expect us to have the best practices, they expect us to know them, they expect us to implement them, they expect us to do it in a public environment. We conduct the public's business in a public forum, and the use of these policies will allow us to do that. So if we can go to the next slide.

## **Slide 11 – Embrace the Letter and the Spirit of SB 1029**

**33:33**

**RON BENNETT:** So school districts are likely to continue to have the largest number of bond issuances for all the reasons that Tim and that I gave, and over the next few years – I hope everybody kind of picked up on that comment Tim made – there will be some bad stuff. Bad stuff happens to good people with good intentions with some degree of regularity. And when we have that next bout with bad stuff, the governor is being very cautious right now, so perhaps we should be cautious. We want to be able to say that we were prepared for it, that we thought it through during peace time before we got to the battle front and had to exercise it, that we knew what we were doing, that we took the time to do that, that our policies are not a knee-jerk reaction to a single situation and situational judgments around that situation.

We think that all school agencies should implement the program with fidelity. We think that while there are ways to skirt the edges and appear to comply, this isn't an area to do that. If you wouldn't stand up at a board meeting and say, "This is our policy. It represents best practices and we're proud of it," then maybe you shouldn't in the back room say, "Well, let's do something a little bit different than that." So most districts, we suspect, do not have policies. Our experience has been they do not, and if they do, they address only one or two of the measures that we would like to see in those policies. I think Tim outlined an excellent foundation and framework for why we need to do this job well. There are about 200 school districts that issued capital appreciation bonds. Some of them stayed below the radar, but many of them, this was a significant emotional event that led to career changes for district personnel and board members and provided a negative forum for the public to address its education agency. We don't think that's the way that we should operate. We think that this is an opportunity for us to adopt those best practices, make them work in our district and be proud that we're leading in this area, not following or being dragged along. So let me stop there. If there are questions later, I'd be happy to participate.

## **Slide 12 – Establishing and Creating Debt Policies**

**36:13**

**ALBERT REYES:** Okay. Welcome, everyone. Albert Reyes here with Nossaman speaking. Tim and Ron have touched upon why we need the policies and why they're being asked to be adopted by issuers. I'd like to focus on the actual process of adopting the policies and what should be in those policies before they're adopted so that they comply with the requirements of SB 1029. I would recommend that issuers, even if you are not planning on doing a debt issuance for several months or for a year maybe, to really consider now getting your policies and procedures in place and getting them crafted and in front of your board or council to get adopted so that when you do get to your debt issuance stage, you don't have to worry about this, and it doesn't have to be another item in the to-do list for you in the process of issuing debt. Because as you may know, there's a lot involved with doing a bond issuance, and having the least amount of work on your plate is probably preferred.

So let's start with the establishing and creating the debt policies. As Tim mentioned earlier, one size does not fit all for your policies. It's not recommended that you take a form from somewhere else, another local agency similar to you, a school district, water district, and you basically just change your name to that form and then put them in front of your board or council and have them adopted. It's best to take either another policy or form policy and to work also as well with your municipal advisor and your bond counsel in formulating a policy and in drafting it so that it fits within your needs and the way you guys operate so that when you do issue debt, you are able to comply with the policies and procedures that you set forth in it. And so don't just take the easy way out and take someone else's goals and policies and just put your name on them. Really think about what you are doing and how you are doing it so that when you do issue debt, it works effectively for you.

In those policies, you will state your goals and objectives for issuing your debt. What do you guys plan to accomplish by issuing debt, and what are the principal goals for it? Some of it has to do with cost effectiveness. You want to borrow in the most cost effective manner. Your risk profile, for instance – you want to pursue and issue debt that offers the lowest possible risk to you as the issuer and if you're a school district, to your taxpayers. You don't want to really encourage elaborate or novel financing structuring that make it really difficult to comply with. And also high a credit rating would probably be an objective or goal for the issuer. You want to obtain the best credit rating for each debt issue, so you want to do things to help you get that debt rating and also lower your debt



cost. And another goal and objective is to comply with state and federal law. You want to be able to issue your debt and know your issuance is in compliance with state and federal law in terms of what type of debt you are issuing and the use of the proceeds, and that your use of those proceeds complies with the tax code as well.

And then also moving on to the next one. You want to create and establish debt policies that are consistent with those principal goals and objectives that you set forth in your goals and policies. And so you want to lay out the type of debt you can issue, the purpose for that debt and other things that are related to those goals and objectives.

And then also, as I mentioned before, the policy and procedures should be appropriate and reasonably manageable for the issuer's staff and responsible officers. You don't want to put too many requirements or restrictions in your policies. You want them to be flexible, and you want them to be workable for either your assistant superintendent, for your city manager, your general manager, or finance director – those people that are actually going to have to manage the debt and work with their legal counsel and advisers. When they issue debt, they are going to have to follow the procedures that are set forth in them, and you don't want to make them too restrictive. So you'll want to consider when you draft your policies and procedures what works for you in those policies so that it's an easy process during issuance and also post-issuance.

### **Slide 13 – Debt Policy Requirements**

**41:10**

**TIM SCHAEFER:** Let's go to the next slide. These next slides will touch upon the five requirements that are in SB 1029 that should be in the policies and procedures that are adopted. And the first one is being the purpose for which the debt proceeds may be used and the types of debt. In your policies, you will only want to include the debt that you are specifically authorized by statute or other authorization to issue. You don't want to include a bond issuance or type of bond or debt instrument that you are not going to issue or ever issue because you are not allowed to or because it just doesn't fit within your capital plan or financing plan. School districts don't have enterprises, so they're not going to consider issuing enterprise revenue bonds. So that wouldn't go into their policies. Water districts generally don't issue TRAns or GOs. They generally focus on revenue bonds. And so that type of thing is what you'd want to put into your policy in terms of that's the type of debt you can issue and what is the specific state authorization for that.

And that also touches upon the next point as well: describing the debt in your policy and specifically referencing the statute, the code reference that says you are authorized to issue this type of debt and in what ways and also for those purposes for which the debt proceeds may be used should also be described in your goals and policies.

### **Slide 14 – Debt Policy Requirements, Cont'd**

**42:45**

**ALBERT REYES:** Tim, on that do you recommend it being very descriptive or just setting forth the types of debt they issue, just sensitive to with respect to GO bonds or revenue bonds or things of that nature?

**TIM SCHAEFER:** Is that a question, Albert?

**ALBERT REYES:** Yeah, Tim, that's kind of the meat of the procedures is whether the type of debt they can issue and the purpose for it. I've seen policies and procedures where it takes a good bulk of the policies and procedures, and other times I've seen it just very general with how they describe the types of debt and what their uses are for it.

And so I think it just depends on the issuer, but at the same time, I don't know if you guys had a position of how descriptive this should be.

**TIM SCHAEFER:** Yes, I think it's fair to say that.... Let me back up. You have covered it very well when you describe the distinction to be made between an enterprise operation like a water district and a school district. I think it's fair to say that most single-purpose entities like a water district or like a school district, this particular section of their policy is likely to be pretty concise, and it may simply state that we're going to do general obligation bonds for X purposes and of course under state law, general obligation bond proceeds have to be spent on real property. But it's good to articulate that in part of the policy. Whereas school districts – and I'm not trying to pick on the school districts here, I'm just using them as an example – may also engage in financing lease activity. So in a financing lease, we might have a different situation because personal property can be divisible and be leased. I have seen some agencies in this part of their debt policy refine this down to the level where they actually get down to the copier lease and the backhoe lease. That's not necessary, particularly, to create good debt policies. It may be desirable if the agency implements those kinds of lease arrangements.

**ALBERT REYES:** Yeah, that's a good point. I think putting in your debt policies the types of debt that you generally will issue as opposed to ones that like you just mentioned, the copier lease and all that where it doesn't have much effect or they're not incurred regularly or really often for the issuer. So you want to focus on the types of debt you generally will issue and the use for that debt. Thanks, Tim.

Turning to the next slide with the method of sale. Now that you've decided or set out what types of debt you can issue, how are you going to sell it, how are you going to get it to the market and put it out there so that investors can consider it and purchase it. So there should be a section in your policies that describe the method of sale for that debt and what the considerations are for determining which method to use, and the person responsible within your local agency to make that determination, and whether that determination should be made in consultation with your municipal advisor or your bond counsel or is it just solely limited to what the officer or official or staff member of the agency determines. The method of sales available generally are competitive sales, negotiated sales, and private placements. With GO bonds especially, negotiated and competitive sale are – they work for both. Generally, I've seen with revenue bonds and other types of other debt, negotiated sales have been most frequently used type of method. Private placements have really taken off over the last several years with bank involvement and willingness to lend money to issuers, especially on a smaller scale, looked at issuance to special districts or cities or even CFDs, things of that nature. Those banks are really getting involved, so there should be some type of description or method for which private placements are considered over a public offering in your debt policies.

## **Slide 15 – Debt Policy Requirements, Cont'd**

**47:48**

**ALBERT REYES:** Turning to the next slide with the factors in structuring each debt issuance. There should be a section in your policies as well that addresses how is the structure of the debt going to be. What is going to be your maximum term limits for the debt? You want to issue it so that the average useful life of the financed asset is allowed under the applicable statute. You don't want to go out to borrow for 40 years if the financed asset has only a 20-year history.

And then the next section with debt service amortization, do you want to have a level debt service or do you want to have most of your principal payments toward the back end of the maturity or the front end? And that's really a

consideration you should put into your policies and have a goal probably of issuing level basis debt service so that you don't have to worry about up-front in costs or worry about having a big balloon payment toward the end of the debt life.

Redemption provisions as well should be considered, and that should be included in consultation with your underwriter and financial advisor. Depending on your market conditions and what investors would like, usually you see a ten-year optional call provision. Sometimes that can be shortened to seven or eight years or nine years. It just depends on what works for the market and that should be considered in consultation with your underwriter and financial advisor when you're actually going out to issue debt.

Credit enhancement is also something that should be set forth in your policy and when credit enhancement such as bond insurance should be purchased, and who makes that determination of when it works for your debt issuance. And so that should also be in consultation with your financial advisor. When to obtain it, but the method of obtainment should be set forth in your policies.

#### **Slide 16 – Debt Policy Requirements, Cont'd**

**49:56**

**ALBERT REYES:** Let's go to the next one: relationship of debt and integration with the issuer's capital improvement program or budget. Most issuers or local agencies, especially school districts or cities, they have a capital facilities plan or capital improvement program or plan, and you have a need for certain facilities or assets to be built in a certain period of time. And you've got to figure out how you're going to finance those assets and in what way are you going to do it and what is the timing of them as well. And so in your policies and procedures, you want to put in a statement of how you're going to integrate your debt with your capital improvement program or budget so that it fits within those programs and that it also fits your needs of incurring that debt and your ability to make debt service payments on that debt. So it's recommended that you also be pretty descriptive in that part of your policies and procedures of how you are going to implement your debt program with what your needs are for capital facilities.

And then also with respect to your budget, you want to incur debt with the lowest possible impact on your general fund and your reserves. You don't want to have to issue debt that's going to really impact your general fund and also cause you to spend your reserves where it just limits your ability to provide other services to your constituents. The statement in there in the policy should be made on that relationship of your debt and capital improvement program.

#### **Slide 17 – Debt Policy Requirements, Cont'd**

**51:46**

**ALBERT REYES:** The next requirement is the policy goals related to the issuer's planning goals and objectives. Tim did mention a few things related to this earlier, but there should be a statement in there that the facilities that are being financed by the debt are consistent with your purpose and further the issuer's purpose. For example, I have here with the school districts, you would only want to be able to finance facilities consistent with the school district's educational mission and that these facilities further that mission. So there should be a policy statement set forth in your procedures that explains what your goals are with respect to your planning goals and objectives.

**TIM SCHAEFER:** Albert, this is Tim. Let me add something to that because I think you've made the point very well, but let me offer for those that are not school districts on the phone. For example, you charter cities may be

approached from time to time and asked to be a conduit issuer for a healthcare facility or a skilled nursing facility. You may wish to consider, even though you are not obligated to repay that debt, it will appear in your footnotes as no-commitment debt, so you may want to consider putting a section in your policy that guides your council on how to do things like conducting its TEFRA hearing and how to judge whether or not the borrower seeking to use you as a conduit is a borrower of good character and it can live up to long-term commitments so that there is no political fallout if there is some kind of financial catastrophe in that. That would be an example.

The final example would be, this is the part of your debt policy that is very, very difficult to discuss with you without knowing each of you and your individual needs. But this part of your policy that talks about your planning goals and objectives – this is where you would pick up concepts like, again, if you are a city and you're fully built out and you don't have big infill projects, a lot of your policy will talk about how to renew and replace existing infrastructure. If you are a brand-new developing city, recently incorporated, you might want to consider adding more development-type finance guidance there – Mello-Roos, assessment district and so forth. This is the one area of your policies which is very hard to generalize about, but I think you get the idea.

**RON BENNETT:** Tim, this is Ron. I would like to add onto that bullet as well. We have a lot of cities, a lot of counties, a lot of school districts, community colleges, who in order to operate efficiently and to serve the same population, enter into joint use policies and they structure facilities so that they will be used by multiple agencies. And who is going to finance it? Who is going to be the lead agency to get the thing built? All of that. I think your policy has to leave you some room for that, but also make it clear that there has to be a business purpose for each of the public agencies. We've had school districts, and I'll just speak anecdotally, who have been approached by developers who say, "Well, you could use public debt. You could build this facility. It would be marginally associated with the school district, but the major purpose would be to put it into some kind of an asset management project and generate revenue for somebody, maybe including the school district." I think most school districts resist that kind of a project and should for good reasons do that, so the balance of policy that would not let the district get too far off the reservation without coming back to the board.

Remember that if you have a board-adopted policy and you want to do something that is beyond that policy, you've got to go back to the board, you're going to have a public discussion of it, you're going to maybe make an amendment to the policy. But if the policy is too broad, these things can happen within the administration and the board might find out only peripherally that the district is doing something that might be beyond what they want the policy to restrict. So this is an area where, bottom line, I think you have to be careful to give yourself some room for those public projects that might involve other agencies that might be consistent with the school district's educational mission, but stay away from those where you hear that siren sound from non-affiliated agencies.

**ALBERT REYES:** Thank you, guys, for your input on that.

## **Slide 18 – Debt Policy Requirements, Cont'd**

**56:58**

**ALBERT REYES:** Let's turn to the last requirement, and as Tim highlighted, it is probably one of the most important ones: establishing internal control procedures so that they implement to ensure that the proceeds of the debt will be directed for its intended use. And in this section here, you would want to designate a responsible officer and/or department if you're a big issuer, such as City of L.A., LAUSD, or other county that has departments. You want to put someone in charge of your debt management, whether it be your assistant superintendent of business, the

superintendent itself, or a city manager, finance director, general manager, or other finance officer. You've got to put someone though, and it should be stated in the policy who is going to be responsible for managing the debt and working within your procedures so that the debt is properly implemented and used for its intended use. So one of the next points: you want to establish procedures for bond administration, processes and for the requirements that support your internal control system. You each have your own method of controlling your money and your own procedures for that, so you want to be able to establish procedures that are within those internal control systems.

## **Slide 19 – Debt Policy Requirements, Cont'd**

**58:29**

**ALBERT REYES:** Turning to the next one, you should apply the same system of internal control activities to bond funds as you do to your other governmental funds in terms of keeping track of its use and other investments and other things. And you also want to confirm that the bond projects and other related expenditures are consistent with the approvals and authorizations and legal documents. You want to make sure that your bond proceeds are being spent on what you said that money would be spent on in your official statement or other legal documentation.

So you want to go out there and make sure that if you are a school district, for instance, you want to go out there to visit the school that's being built with your money or other buildings, you want to make sure the money is being spent for that purpose. And also you should monitor the funds and accounts of the trustee, or county treasurer if that's the appropriate party, to make sure that the money that is in there should be in there, that the amount is true and that the expenditure of that money is being done properly. So you want to get statements and records from your trustee for a history of those expenditures and being able to keep track of where that money went. And then also you want to be able to have procedures that confirm compliance with the tax certificate covenants for that debt as most issuers sign the issuance of bonds in conjunction with the tax certificate. There are policies and procedures that are set forth in the tax certificate with respect to how that money is going to be spent so that you don't risk the tax-exempt nature of the debt to become taxable.

So you want to confirm that you are complying with those covenants, and you want to have procedures in place as well that allow and describe how you would stay in compliance with those covenants, such as the arbitrage rebate, monitoring and filing. You want to be able to keep up with what your payments need to be with that or any arbitrage, for instance. And so you want to put some descriptions in your policies regarding that compliance. One last thing – I think that Tim mentioned earlier – to reconsider your policies annually or at least every two years at worst to make sure that these policies are working for you and that you guys can live with them. And if not, if there are things in there that just don't work, make changes to them and keep them flexible and keep them up-to-date with how you guys are functioning as a local agency. So you should review annually these policies or at least once every two years so that you are keeping them current and keeping them up-to-date so they are workable for you.

**TIM SCHAEFER:** Thank you, Albert. It's Tim again.

## **Slide 20 – Certification**

**1:01:41**

**TIM SCHAEFER:** Let's talk about the certification here. Before we do, if I can ask everybody to humor me. I don't mean to be irreverent, but I want to share a story. Many, many years ago in my career when I did project financing, I worked with a start-up airline that those of you who are my age may remember called People Express. It's gone now, but People Express was buying five L-1011 TriStar airplanes from Lockheed just as Lockheed was going out of the passenger airplane business. And in due diligence session with the president of this startup airline, he made this statement to us. I was working for the firm that underwrote the debt. He said, "Dirty tray tables imply faulty engine maintenance to the passenger." Of course, what he meant was, if the passenger gets on the plane, pulls down the tray table and sees it is sloppy and dirty, the passenger ultimately begins to worry, "Are they taking care of the engines the same way they're taking care of the tray tables?" I'm offering that as a moment of levity in this discussion because you've all been very patient to listen to this so far.

But this last point that Albert made is near and dear to your bond lawyer, it's near and dear to your accountant, your auditor, it's near and dear to the Internal Revenue Service if they come calling. And if I can make you all smile by just thinking that dirty tray tables may imply faulty engine maintenance, then you will discover how important it is in your policy-level discussion to follow through on making sure those requisitions are picture perfect and every "i" dotted and every "t" crossed. I might add, my instinct is that it will make your county treasurers if you're school districts very happy also.

Let's talk about certification. Now, so far, everybody has been kind and they haven't said, "Gee, here's this fellow from Sacramento telling us what he thinks we should do." Certification on SB 1029 requires that you certify that you've crafted the five elements into your agency's policy, and you respond yes, no, or not applicable. What happens if "no" is checked? Well, I can tell you that if "no" is checked, there is no CDIAC police force. Nobody will show up at city hall or the school board meeting with a badge and say, "Gee whiz, you are bad actors because you didn't do this." I'm not encouraging you to not be in compliance. Rather, what I'm encouraging you to do is to recognize that if you embrace the concept of this over long periods of time and work hard to incorporate this into your budgeting practices, your capital improvement planning practices, and integrate – that's the word you've heard Albert talk about and Ron talk about – well, by golly, you might check "no" on your debt policies if you issue debt in 2017. That's not going to be a terminal event. However, you should presume that the author of SB 1029 and CDIAC will come around and periodically review their own data to say, "Has this requirement in state law improved the ecosystem for borrowing by California's local governments?" Because that's the purpose of it.

So we sure don't want to be in a position where two, three, four years from now, we're still checking "no" on the box. Because while there won't be a wall of shame, I think you can safely presume that CDIAC will come back as the author has requested and periodically determine how we're doing. To that end, I will tell that you as we speak, as we speak, the State of California Treasurer's Office is on the verge – it should happen momentarily – of having California Treasurer John Chiang adopt debt policies for that part of the debt process in the state of California which we control. So this is not a case of do as we say, not as we do. And that's the takeaway message here. The takeaway message here is that as the treasurer's deputy, I want to exhort you to understand the philosophy behind this and recognize that if we all pull together and we all get on board here, and we each do our part, the result will be that we will have a market of greater integrity that is more efficient, that is more widely embraced by investors, that produces better results for all of us. Do you want to take questions now, Linda?



**LINDA LOUIE:** Yes, if folks would like to type in additional questions, we'll certainly take a look at them and respond to them verbally. And while you're doing that, what we can do is we will look at some of the history of the questions coming in and see if we'd like to just answer them in general for the audience for edification purposes.

**TIM SCHAEFER:** So here's a question: "If an agency is a conduit issuer, can they transfer the responsibility of reporting to the borrower inside their bond documents?" Yes, they can have the obligor or borrower develop the debt policy since they are responsible for repaying the debt.

[CORRECTION: The short answer to the question regarding whether or not a local conduit issuer can delegate responsibilities to adopt a debt policy to its obligor is "no" but with caveats.

The local conduit issuer must adopt a debt policy that at least complies with 8855(i)(1) A and B if their obligor is another governmental agency. That local governmental agency/obligor must then certify that it has adopted policies in compliance with 8855(i)(1) C, D & E. If the obligor is a non-governmental entity (a private non-profit), then the local conduit issuer should select N/A since the debt is not considered to be local public debt.]

**TIM SCHAEFER:** Here's another question. Maybe Ron and I can answer this one. Somebody has observed, "So essentially, SB 1029 is an effort to get school districts and community college districts on board toward employing best practices and that has created new obligations on them than existed previously. Is this correct?"

Well, I would, I think, offer some mild pushback on the assertion that this is aimed at school districts. I would also observe that since school districts, as we mentioned at the top of the webinar, account for 60 percent of the general obligation debt issuance in the state in 2016, that school districts clearly are in the same pool of audience. But please do not take away from this that this is aimed solely at school districts. It is aimed at all public issuers. And then I would make this final observation that in my multiple years in the business, what I observe is – and Ron, I'm going to lateral to you as soon as I'm done with this part – what I observe is that active citizens in our communities, when they want to get involved, they want to run for office, they want to make a difference in their community, they don't start off running for governor. They run for school board. And these are the elected officials, well-intentioned elected officials, who want to make a difference in their community, who might best be served by having a policy framework to make such important decisions rather than trying to make them in a transactional context. Do you have any thoughts on that, Ron?

**RON BENNETT:** I do. I'd actually push back on both premises of the question. First, I don't think that this policy question targets school districts. I think that you can find less publicized situations in other public agencies that show that we really have a responsibility that hasn't generally been formalized and acknowledged, and some agencies have handled it really well. Some have not. It's been inconsistent. It isn't formalized in a policy where the public can see transparently what's happening, so I don't think it's targeted at school districts in particular. The GFOA basically is involved in best practices for all government agencies.

And then second, I think that the premise that it imposes an additional duty, I think is also wrong. I think that the public agencies, including school districts and community colleges, have always had the duty to operate efficiently, to be prudent with public funds, to be transparent with those funds, and this process simply formalizes that. But, you know, we've always had the obligation to drive carefully. Putting up a speed limit sign just kind of formalizes – well that's part of driving carefully, and in this circumstance we've already made our decision of what a safe speed

is, and so we'll put up a sign that tells everybody that. Everyone will be informed. And I think this policy is very much like that process.

**TIM SCHAEFER:** Thank you, Ron. Albert, maybe you can help us with this question: "In reading over the bill, it looks like this is only applicable to agencies that report a sale after January 21, 2017. If our agency issued bonds prior to this date, do we still need to comply with this new law on the annual reporting and establishing the policy, even though we may not issue any more debt for another 10-15 years?"

**ALBERT REYES:** Well, going through the first part with complying with the reporting and also with the debt policies, you don't need to retroactively go back and re-file a debt issuance report with CDIAC to re-check that box or not check it if you didn't adopt policies. So no, there's nothing for you to do on that part. There's no annual reporting requirement because your debt was issued prior to the effectiveness of the requirement for SB 1029. But it still is recommended because you do have debt outstanding. You need to manage that debt. So it's recommended that you do adopt policies and procedures and begin that process soon because you've got to put into place procedures – as I mentioned in the last requirement – that touch upon how you're going to manage those proceeds and the use of those proceeds and how they're spent and keeping track of your tax covenants and requirements. So I would recommend still adopting policies and procedures now, even if you don't plan to do another debt issuance for ten years.

**RON BENNETT:** Could I tag on? This is Ron. A lot of times, we make an issuance and we don't intend to do another issuance for ten years, but we have an opportunity to refund bonds or repurpose them or replace them with some other instrument. And so having the policy developed, as I said, before the battle, before – so you are doing it while you're not trying to issue something the next week – I think really facilitates having flexibility and options in case your ten-year expectation does not come to pass.

**TIM SCHAEFER:** Thank you. Thank you, Ron and Albert. I have two questions here, one of which is a statement which I think is important for this group to focus on. And it comes from an unnamed person in the ecosystem, but somebody who I respect a lot is offering this comment to me, and she is saying that both FCMAT [Financial Crisis & Financial Management Assistance Team] and CSBA [California School Boards Association] have published sample policies. And even though they are quite different from one another, agencies who have not yet adopted a policy might want to review them both in order to gain some understanding or ideas on how to proceed. And I think that's an excellent suggestion. That isn't to endorse the idea of doing global search and replace, but certainly understanding how others have attacked the problem would inform anybody and is highly recommended.

Now, here's the question: "We don't have any bond debt. However, we are applying to borrow money from the State Revolving Fund. They are asking for a debt management policy. We don't have one to date because we don't have any debt yet." So let's ask our fellow panelists how they would respond to that. Who wants to start? Albert, you have a thought on that?

**ALBERT REYES:** Well, yeah, the requirement for the SB 1029 debt policies is also in connection with when you file your Report of Proposed Debt Issuance that you have the ability to make that certification to say you have adopted policies, and in this case with the revolving loan, is a reported debt, a proposed debt issuance going to be filed? And if so, then you would want to create debt policies that are in compliance with SB 1029.

**RON BENNETT:** This is Ron. I have a little bit of anxiety with the question because it kind of implied that the agency has not made adequate preparations for the issue until they are asked for this policy, and it sounded kind of like it was near the end, and that's not the way it generally works. I'd like the agency to have time to think about the

repayment source. It might require an election or something like that to get that done. And so during that particular time, we don't issue debt as a come-as-you-are party where we sit on the phone today and say, "Well, let's issue some debt tomorrow." And as one of the routine steps that an agency, any public agency should take, not just school districts, I would hope they would contemplate way in advance, what are the things that will guide us in the issuance of this debt, even if it's going to be to another agency? But if it's reportable debt, I don't think you want to put yourself in a situation where it's a last-minute kind of come-as-you-are party, and let's figure out a way to check the boxes. So I'd like to think they were anticipating it further in advance.

**TIM SCHAEFER:** Thank you, Ron. Here's, I think, an excellent question that came up at the policy level and still is in the process, I think, of being settled. I'm going to take the first crack at this and I'm going to ask my fellow panelists to join me. "How should my agency report expenditures to CDIAC per SB 1029?" Excellent question.

Well, here is how I would like to tee it up for my two colleagues on the panel. Remember that in a very large issuing agency such as the State of California, we may have, and in fact have had, bond sales where we have literally 5,000 individual projects being financed with one bond issue. Those projects can range from tens of thousands of dollars for renovation of restrooms at a state park, up to millions of dollars, if not hundreds of millions of dollars, for other types of major facilities. So that question is going to get answered very differently at the state level than it would at the local government level. That's my first point.

The second point is, remember that when you sell debt, your bond attorney – and I will let Albert speak to this in a moment – your bond attorney will probably file on your behalf, or ask you to sign so that he can file on your behalf, a Form 8038, which is a tax return and is required by the attorney and the Internal Revenue Service when you sell bonds, that has some very basic buckets of purposes for which your bonds have been sold. That may be perfectly adequate in your agency.

Third point – and Ron may wish to speak to this when Albert is done – your community may demand more information about where your agency is spending money that they agreed to borrow and repay over long periods of time. So in your community it may need to be more granular than those five buckets that are on the back of the tax return, but perhaps not so granular as to get down to those 5,000 projects that we do in the state because we tend to borrow money programmatically. So the takeaway, from my point of view – and I ask the other panelists to speak up – is that a lot of this is going to depend on the guidance you receive from your community and your governing board. What do you think, Albert?

**ALBERT REYES:** Certainly, what you touched upon right there with that statement, is you really would need to consult with your legal counsel that you have to get their recommendation of how you would proceed with that, and they would do the forms on your behalf. And so they would be able to help you out with that so that is something you should raise with them.

**TIM SCHAEFER:** Ron, what's your view?

**RON BENNETT:** So the legal issues, the forms, things like that, are beyond our expertise, but the relationship with the public is not. And I've seen in school districts since the AB 182 process has begun, school districts are now required to approve debt at regular meetings, not special meetings. Most districts are bringing the debt forward more than once, maybe for discussion at one meeting and then approval at another meeting. We're seeing a lot more transparency, and I think that transparency runs to this issue as well. And remember that comment I made about it's like a marriage without the possibility of divorce, and if you screw up – I come home late a lot because I am working all kinds of hours and taking late flights, and my wife puts up with that, but if I come home with lipstick

on my collar a time of two, the trust level is going to be diminished. And this is an area where public transparency eliminates the possibility of that lipstick on the collar that sticks with us for a very, very long time and affects our trust relationships, and those are vital to all public agencies. So beyond the legal part, this is about good government, it's about doing the right thing, it's about adopting best practices. GFOA is a fantastic organization, as is CDIAC, for promoting good government in California. And I'm on this call and part of this webinar because I want to encourage our major borrowers and school agencies to take this seriously, take it in the right spirit and move forward with fidelity, as I said earlier.

**TIM SCHAEFER:** Thank you, Ron. I'm going to bundle a couple of questions here. One participant is asking, "If a loan is received from the county's water agency, will that trigger reporting under SB 1029?" A similar question is being asked: "Are revolving fund loans considered debt under Government Code 8855?" which is the governing statute of this. Short answer is yes, and we want to encourage all of you to recognize that as CDIAC has grown and matured and become much more effective in discharging its service mission to the state, very recently under Mark's leadership, the Commission has now engaged in rulemaking under the state's Administrative Procedure Act.

So it would be well for you if you have some of these things that you think may be outliers, like water agency loans and revolving fund loans, to consult some of the definitions in those regulations because you will find that, yes, they are debt and they are reportable. Why is that? Let me just touch on bank debt for a moment and tell you that 40 years ago, banks were big buyers of municipal bonds. And then the 1986 Tax Act came along and changed the manner in which big commercial banks could treat the tax exemption. And I won't get into that. It's way too wonky, but the result is that bank interest in purchasing debt of local agencies began to taper off, and it tapered off quite sharply until right after the financial crisis broke. And now we see it creeping back up again. A lot of it is in the form of direct loans. And that's where this regulatory impetus came from CDIAC. It's important for policymakers – in our state legislature, academics in our state, the marketplace, financial analysts, rating agencies, policymakers at your local government level – to understand and have good actionable data on how much public debt is outstanding in our state. And that's why the regulations incorporate this kind of thing. It's not meant to be arbitrary or capricious. It's just meant to be comprehensive.

Here's another question and I should probably make this my last, Linda, because it's 11:30: "Are operating leases included?" The short answer is, if it's really an operating lease – and I'm going to leave it to you CPAs who are on the phone because I know you're out there – there are elements of a lease that make it become characterized as a financing lease, which is different from an operating lease. When I wander down to my automobile dealer and buy a car and I lease it, that is a financing lease because if I don't pay, I'm still obligated to pay the full amount of the lease. I can't just simply walk away from the car. That's a financing lease. An operating lease, in my simplistic way of expressing it to you, would be like leasing an apartment. When I get to the end of my lease on my apartment, I have no right and there is no expectation that the landlord is going to sell it to me. So if you really do have an operating lease, no, that would not be reportable under 8855.

So Linda, Mark, thank you for hosting this. Thank you to Albert, thank you to Ron for your wisdom and your advice. And Linda, I'll hand it back to you for sign off.

**LINDA LOUIE:** Thank you, again, everyone for participating and allowing us to go over to answer last-minute questions. The presentation slides are posted on the CDIAC education web page along with the reference materials that were mentioned during the presentation. Join us, if you can, on May 5th for a seminar that is tangent to this

topic. We'll be talking about internal controls through bond accountability. Again, we'd would like to thank Ron Bennett from School Services of California and Albert Reyes from Nossaman, who is also counsel with the California Special Districts Association, and our deputy treasurer, Tim Schaefer. So for everyone, we look forward to your continued participation with CDIAC education programs. And part two, which is the reporting of SB 1029, will follow this fall in a webinar format. Good-bye for now. Take care.