



City of San Diego



California Debt & Investments Advisory Commission

The Mechanics of a Bond Sale

Debt Management Policy & Plan of Finance

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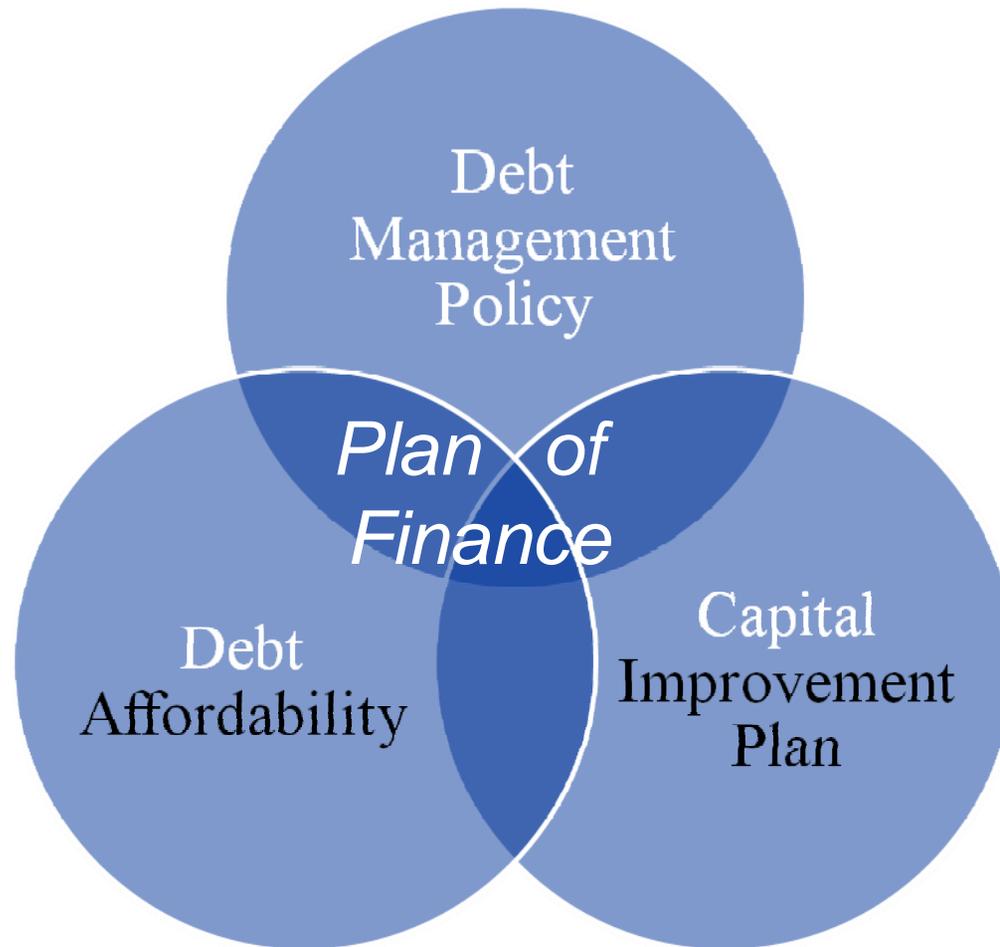
Debt Management Policy

- Debt Management Policy:
 - Improves the quality of decisions
 - Provides justification for the structure of debt issuance, identifies policy goals
 - Demonstrates a commitment to long-term financial planning, including a multi-year capital plan
- Adherence to a debt management policy:
 - Signals to the capital markets that a government is well managed
 - Indicate government can pay obligations in a timely manner

Source: GFOA



Effective Plans are Informed by Policy





Commitments of Debt

Issuing debt

- Commits a government's revenues several years into the future
- May limit the government's flexibility to respond to:
 - Changing service priorities
 - Revenue inflows
 - Cost structures
- Adherence to a debt policy helps ensure that
 - Debt is issued and managed prudently
 - Maintains a sound fiscal position
 - Protects credit quality

Source: GFOA



Components of Good Management Practices

- Debt affordability
- Cash reserves
- Multi-year forecasting
- Formal CIP program
- Contingency plans for CIP
- Pay-as-you-go capital financing
- Effective management and information systems
- Regular reporting
- Appropriate debt amortization
- Recurring revenue policy
- GFOA awards

Source: Fitch Ratings, Standard & Poor's



Basic Questions to be Addressed in a Debt Policy

- What is the reason for the financing?
- What is the legal authority for issuance of the debt?
- How will the debt be repaid?



Basic Questions to Be Addressed in a Debt Policy (cont'd)

- Will bonds be sold with an investment grade rating?
- Who will be the ultimate purchasers?
- What are the qualifications of the professional advisors and underwriters assisting in the financing?
- What is the proposed method of selling the debt?



Purpose of Financing

- Is the project to be financed well defined and approved?
 - Have construction bids been received?
- Should the project be financed by bonds or by pay-as-you-go funds?
 - Beneficiaries
 - Cash reserves
 - Never finance maintenance costs



Repayment Plan

- Will the project being financed generate its own revenues?
- Will bonds be sized just the project revenues?
- How will on-going maintenance be paid for?
- Will the General Fund have to be pledged?
- What is the impact on future budget flexibility?
- How will issuing debt effect debt ratios for issuer?
 - Debt ratio (and debt service) as a percentage of General Fund
 - Debt ratio on a per capita basis
 - Debt ratio as a percentage of Assessed Value



San Diego Debt Policy

History

- Prior to November 2007, the City did not have a formal, written debt policy that comprehensively addressed procedures and goals for the used of debt to finance the City needs
- In conjunction with the Mayor , a formal Fiscal and Policy dialogue was opened and a policy was developed



San Diego Debt Policy

Purpose

- The Debt Policy is designed to:
 - Establish parameters for issuing and managing debt
 - Provide guidance to decision makers related to debt affordability
 - Document the pre and post issuance objectives to be achieved by staff
 - Promote objectivity in the debt approval process
 - Facilitate the actual financing process by establishing important policy decisions



San Diego Debt Policy

Overview

- The City, acting through the Chief Financial officer, executes debt instruments, administers debt proceeds, manages ongoing disclosure and debt compliance, and makes debt service payments; acting with prudence, diligence, and attention to prevailing economic conditions
- The City believes that debt is an equitable means of financing projects and represents an important means of meeting fiscal responsibilities



San Diego Debt Policy

Salient Features

The City takes the following steps in the debt issuance process:

- Establishes purpose and need for financing
- Determines creditworthiness objectives
- Selects financing instrument type(s)
- Outlines affordability targets
- Clarifies structure and term of indebtedness
- Chooses method of sale
- Forms financing team
- Explores refunding opportunities
- Implements post issuance administration



San Diego Debt Policy

Unique Characteristics

- The Debt Policy is annually reviewed by staff with any needed changes recommended to the City Council
- Operations and Maintenance costs for capital improvement projects are assessed before a financing is proposed. A budget recommendation to cover the anticipated O&M costs should be made before bonds are authorized for a capital improvement project.
- No use of variable rate debt and derivatives
- City lists financial obligations which are not covered by Debt Policy
- The Redevelopment Agency and Housing Authority debt policies incorporated into the City's Debt Policy



Structure & Term of City Indebtedness

- Term of Debt
 - Reasonable
 - Fair cost allocation to current and future beneficiaries over time
 - Not to exceed useful life



Affordability

- Legal limits
 - Prop 218
- Public policy limits
 - City Council
- Financial Limits
 - Debt burden



Capacity

- Capacity is limited and valuable
- Funds borrowed for project today cannot be used for other projects tomorrow
- Funds that pay off debt today are not available for services tomorrow
- Long-term capital planning is key to managing debt capacity



Capacity Analysis

- Debt capacity ratio analysis
 - Debt / Assessed Valuation
 - Deb per Capita
 - Debt / Personal Income
 - Debt Service / Revenue or Expenses
- Comparable peer group comparisons
- Forecasting
- Market factors
 - Too Big? Too small?



Forming a Financing Team

- Will the issuer create a pool of professionals to use on all its financings?
- Or, stand alone teams formed for individual financings?
- Selection of an Underwriter for negotiated deals
 - On a RFP basis for each financing?
 - Create a pool of Underwriters and select from this pool for each financing?
 - The firm/s must demonstrate credentials



Types of Financing Instruments

- Long-term debt
- Short-term



Do Bonds Need a Rating?

- Will bonds only be sold if they achieve minimum investment grade rating ?
- Insure bonds?
- Will non-rated bonds be considered for issuance?
- To whom will the bonds be marketed?



Negotiated vs. Competitive

- Negotiated Sale
- Competitive Sale



Post Issuance Administration

- Investment of Bond Proceeds
 - Safety and security until bonds are used for intended projects
 - Comply with tax laws
- Arbitrage Compliance
 - Comply with Federal Tax code and maintain low cost of debt
- Ongoing Disclosure
- Compliance with Other Bond Covenants
 - Appropriation of revenues, levies of taxes, transfer of debt service
 - Compliance with insurance, rate covenants



Summary

- Policies are Powerful
 - Foundation for long-term fiscal health: underlying basis for case-by-case decision-making
 - Essential component of any contingency plan
 - Articulates your values before they are under stress
- The City of San Diego's *Debt Policy* is available electronically for more detailed insight and structure:
 - www.treasurer.ca.gov/cdiac/xxxyyyzzz