

**CDIAC**

**CALIFORNIA  
DEBT AND  
INVESTMENT  
ADVISORY  
COMMISSION**

# OVERVIEW OF DEBT ADMINISTRATION

**Angelica Hernandez, Manager, Policy Research Unit, CDIAC**

September 6, 2017

Ongoing Debt Administration

# Debt Policy

“Debt management policies are written guidelines, allowances, and restrictions that guide the debt issuance practices of state or local governments, including the issuance process, management of a debt portfolio, and adherence to various laws and regulations.”

GFOA

*Debt Management Policy Best Practice*

# Debt Policy Elements - GFOA

## GFOA Best Practices:

### 4 Basic Categories

- Debt Limits
- Debt Structuring
- Debt Issuance
- Debt Management

### 30 Total Elements

GFOA BEST PRACTICE GUIDELINES  
CONTENT CATEGORIES, SUBCATEGORIES, AND ELEMENTS

	GFOA BEST PRACTICE CATEGORIES	GFOA BEST PRACTICE SUBCATEGORY	ELEMENTS OF DEBT MANAGEMENT POLICY
DEBT LIMITS	<p>Debt Limits. The Policy should consider setting specific limits or acceptable ranges for each type of debt.</p> <p>Limits generally are set for legal, public policy, and financial reasons.</p>	Purpose for which debt may be issued (Purpose Limits).	<ul style="list-style-type: none"> <li>Restrictions and Uses</li> <li>Sources of Repayment</li> <li>Useful Life, Matching Asset Life</li> <li>Pay Go, Integration with Capital Plan</li> </ul>
		Legal debt limitations, or limitations established by state, local policy (Policy Limits).	<ul style="list-style-type: none"> <li>Legal/Statutory Limits</li> <li>Fiscal Condition, Ratios</li> <li>Debt Service Capacity</li> </ul>
		Types of debt permitted to be issued and criteria for issuance (Debt Type Limits).	<ul style="list-style-type: none"> <li>Short and Long Term</li> <li>Fixed and Variable</li> <li>Other Financing</li> </ul>
DEBT STRUCTURING	<p>Debt Structuring. The Policy should include specific guidelines regarding the debt structuring practices for each type of bond.</p>	Structural features considered.	<ul style="list-style-type: none"> <li>Call Features</li> <li>Maturity</li> <li>Credit Enhancement</li> <li>Derivative Products</li> </ul>
DEBT ISSUANCE	<p>Debt Issuance. The Policy should provide guidance regarding the issuance process, which may differ for each type of debt.</p>	<p>Credit objectives.</p> <p>Method of sale.</p> <p>Selection of external financial professionals.</p> <p>Refunding of debt.</p>	<ul style="list-style-type: none"> <li>Ratings</li> <li>Relationships with Credit Raters</li> <li>Competitive vs. Negotiated</li> <li>Direct Loans</li> <li>Private Placements</li> <li>Premium Structures</li> <li>Request for Proposal (RFP)</li> <li>Contract Evaluation and Terms</li> <li>Conflict of Interest</li> <li>Reasons for Refunding</li> </ul>
DEBT MANAGEMENT	<p>Debt Management. The Policy should provide guidance for ongoing administrative activities.</p>	<p>Disclosure (primary and secondary market).</p> <p>Investment of bond proceeds.</p>	<ul style="list-style-type: none"> <li>15c2-12 Requirements</li> <li>Initial and Continuing</li> <li>Obligated Person to Communicate</li> <li>Compliance with Federal Tax Law</li> <li>Arbitrage Requirements</li> <li>Direct to Investment Policy</li> </ul>

# Debt Policy Elements - CDIAC

As of January 1<sup>st</sup>, Gov't Code Section 8855 (i) requires issuers to certify that the agency has an adopted debt policy with the following elements:

- ▣ The purposes for which the debt proceeds may be used;
- ▣ The types of debt that may be issued;
- ▣ Relationship of debt to the issuer's capital improvement program or budget;
- ▣ Policy goals related to issuer's planning goals and objectives; and,
- ▣ A issuer's internal control procedures ensure bond proceeds with be directed to their intended use.

# DP Importance - Post Issuance

- Internal Revenue Service (IRS)
  - ▣ Form 8038 – certifying written procedures for arbitrage, yield calculation and rebate requirements
  
- CDIAC
  - ▣ SB 1029 required reporting – certifying an adopted debt policy with 5 particular elements
  
- Disclosure
  - ▣ Initial and Continuing

# Who Uses a Debt Policy?

- Review of Debt Policy certification to CDIAC  
Jan. 2017-April 2017
  - In July 2017 edition of *Debt Line*.
  
- CDIAC Debt Policy Survey Conducted in 2013  
on issuers of debt reported to CDIAC, Jan  
2001-Jan 2012
  - Results Published in *Employing a Debt  
Management Policy, Practices Among California  
Local Agencies*:

# Best Practice Resources

## □ CDIAC

- ▣ Task Force on Bond Accountability Final Report
- ▣ Employing a Debt Management Policy

## □ GFOA

- ▣ Debt Management Policy Best Practices – 2012