PRINCIPLES AND PRACTICES OF DEBT MANAGEMENT: EMPLOYING A DEBT POLICY

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GFOA’s Best Practice:
Debt Management Policy

Susan Gaffney
SG & Associates
Background

- Debt Management Policy First Approved in 1990s to Help Governments Develop an All Encompassing Layout for their Debt Management Program

- Revised (most recently in 2012) to Reflect Changing Market and Practices

- Other GFOA DEBT Best Practices Stem from This Practice

- [http://gfoa.org/sites/default/files/DEBT_DEBT_MANAGEMENT_POLICY.pdf](http://gfoa.org/sites/default/files/DEBT_DEBT_MANAGEMENT_POLICY.pdf)
Importance of a Debt Policy

- Enhances Internal Management Practices
- External Recognition and Transparency
  - Credit Rating Agencies
  - Outside Professionals/Public Know Entity’s Parameters
- IRS Asking for Policies and Procedures
  - Investment of Bond Proceeds
  - Use of Proceeds
- SEC Encouraging Use of Disclosure Policies and Procedures
  - More Aggressive Stance Over Past Few Years
  - MCDC Initiative
- Evolving Federal Regulatory Landscape
  - MA Rule
  - IRS/Issue Price Regulations
Basics of a Debt Policy

- Authority to Issue Debt – Who Are You?
- When Debt May be Used to Finance Capital Projects
  - Including Use of P3s and TIFs
- Entity’s Debt Limits/Debt Capacity
- Types of Debt Allowed to Be Issued
  - General Obligation
  - Revenue
  - Taxable (including tax-credit, subsidy)
  - Fixed or Variable Rate
  - Other Products: POB, OPEB, Derivatives, Notes and Loans
  - Refundings (current and advanced)
Basics of a Debt Policy

- Structuring Debt
- Hiring, Scope of Services, and Fee Structures for Outside Professionals
- Method of Sale
- Bond Ratings and Enhancements
- Pricing Evaluation
- Investment of Bond Proceeds
- Compliance with Federal Tax & Securities Laws
  - Disclosure, Including Posting Information on EMMA
  - Arbitrage
Implementing the Policy

- Development by Team (with a leader!)
- Internal/Staff Sign Off
- Approval From Governing Body
- Disseminating to Team (internal and external)
- Compliance Procedures
  - Are We Doing What We Said We’d Do?
  - Developing Checklists to Ensure Compliance
- Schedule to Review and if Needed, Revise
Other Observations

- Look at Peer Entities
- Develop Section by Section
- Know Which Issues are More Static and Others That Are More Dynamic, and Don’t be Afraid to Revise
- Stay Alert for Changing State and Federal Laws and Regulations
- Help Those That Come After You!
  - Professional Staff
  - Elected Officials
EMPLOYING A DEBT MANAGEMENT POLICY PRACTICES AMONG LOCAL AGENCIES

Robert Berry, Deputy Executive Director, CDIAC
Study Setting

- State of Municipal Finance
  - Unprecedented fiscal stress among CA agencies
  - Municipal bankruptcies with debt service cited as a root cause
  - Strengthening regulatory environment with penalties applied to issuers
  - Evidence of issuers taking on structures w/o full consideration of all risks or implications
A debt management policy is an essential element of a local agency’s debt program

- Wealth of debt management policy guidance from GFOA – a comprehensive framework is available
- Rating agency consideration when seeking a rating
- Risk of non-compliance with MSRB disclosure requirements, IRS
- Issuing debt at the lowest cost to rate and taxpayers in the era of enhanced transparency and accountability

How prepared are California municipal issuers?
Study Methods

- Random Sampling
  - Counties, Cities, and School District Issuers
  - Debt Issuance(s) occurred 2003 through 2012

<table>
<thead>
<tr>
<th>Issuer Type</th>
<th>Issuers in Population</th>
<th>Population Volume (Billion)</th>
<th>Issuer Sample Size</th>
<th>Sample Volume (Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Counties</td>
<td>50</td>
<td>$39</td>
<td>33</td>
<td>$34</td>
</tr>
<tr>
<td>Cities</td>
<td>310</td>
<td>$47</td>
<td>73</td>
<td>$28</td>
</tr>
<tr>
<td>School Districts</td>
<td>666</td>
<td>$87</td>
<td>124</td>
<td>$34</td>
</tr>
<tr>
<td>Total</td>
<td>1,026</td>
<td>$172</td>
<td>230</td>
<td>$96</td>
</tr>
</tbody>
</table>

- Statistical Note: Sample size provides a +-10% interval at 95% confidence for each issuer type.
Study Methods

- **Data Collection**
  - Gathered documents from websites unmistakably identified as Debt Management Policies
  - If no policy on-line, contacted the agency directly
  - Counted the document and gathered it for analysis if the agency identified it as a Debt Management Policy

<table>
<thead>
<tr>
<th>Issuer Type</th>
<th>Issuer Sample</th>
<th>Issuers with Policies</th>
<th>Issuers with Policies</th>
<th>Volume (Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Counties</td>
<td>33</td>
<td>20</td>
<td>61%</td>
<td>$31</td>
</tr>
<tr>
<td>Cities</td>
<td>73</td>
<td>36</td>
<td>49%</td>
<td>$26</td>
</tr>
<tr>
<td>School Districts</td>
<td>124</td>
<td>28</td>
<td>23%</td>
<td>$24</td>
</tr>
</tbody>
</table>
Content Evaluation

GFOA Best Practice Categories/Elements

- 30 Policy Elements – Each policy scored 1 to 30
- No weight given to any one policy element
- Scoring based on the presence of an element, not how well it was addressed

Scoring Teams

- 2 teams of 2 reviewers
- Each team reviewed 42 policies with equal number of each agency type
- Each reviewer scored blindly
- Conflicts between reviewers/teams were reconciled through joint review and consensus
- Non-reviewer staff member reviewed all scores for irregularities
Results: At a Glance

- Some very strong, comprehensive policies
- As a group, adherence to GFOA standard was poor

<table>
<thead>
<tr>
<th>Policy Elements</th>
<th>Counties</th>
<th></th>
<th>Cities</th>
<th></th>
<th>School Districts</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Policies</td>
<td>% of Group Total</td>
<td># of Policies</td>
<td>% of Group Total</td>
<td># of Policies</td>
<td>% of Group Total</td>
</tr>
<tr>
<td>15 or more</td>
<td>11 55</td>
<td>8 22</td>
<td>1 4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 15</td>
<td>9 45</td>
<td>28 78</td>
<td>27 96</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>36</td>
<td>28</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>15</td>
<td>7</td>
<td>3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Statistical Note: This results apply only to the policies reviewed and can’t be projected upon the population of counties, cities, and school districts with debt management policies.
### Results: Debt Limits Category

<table>
<thead>
<tr>
<th>DEBT LIMITS</th>
<th>DEBT MANAGEMENT POLICY ELEMENTS</th>
<th>PERCENTAGE ADDRESSING ELEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>COUNTIES</td>
</tr>
<tr>
<td>PURPOSE OF ISSUE</td>
<td>Restrictions and Uses</td>
<td>95</td>
</tr>
<tr>
<td>PURPOSE OF ISSUE</td>
<td>Sources of Repayment</td>
<td>70</td>
</tr>
<tr>
<td>PURPOSE OF ISSUE</td>
<td>Useful Life, Matching Asset Life</td>
<td>80</td>
</tr>
<tr>
<td>PURPOSE OF ISSUE</td>
<td>PayGo, Integration with Capital Plan</td>
<td>70</td>
</tr>
<tr>
<td>DEBT LIMITS</td>
<td>Legal/Statutory Limits</td>
<td>75</td>
</tr>
<tr>
<td>DEBT LIMITS</td>
<td>Fiscal Conditions, Ratios</td>
<td>70</td>
</tr>
<tr>
<td>DEBT LIMITS</td>
<td>Debt Service Capacity</td>
<td>70</td>
</tr>
<tr>
<td>TYPE AND CRITERIA</td>
<td>Short and Long Term</td>
<td>75</td>
</tr>
<tr>
<td>TYPE AND CRITERIA</td>
<td>Fixed and Variable</td>
<td>45</td>
</tr>
<tr>
<td>TYPE AND CRITERIA</td>
<td>Other Financing</td>
<td>90</td>
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</table>
## Results: Debt Structuring Category

<table>
<thead>
<tr>
<th>DEBT MANAGEMENT POLICY ELEMENTS</th>
<th>COUNTIES</th>
<th>CITIES</th>
<th>SCHOOL DISTRICTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Call Features</td>
<td>35</td>
<td>14</td>
<td>4</td>
</tr>
<tr>
<td>Maturity</td>
<td>45</td>
<td>36</td>
<td>43</td>
</tr>
<tr>
<td>Credit Enhancement</td>
<td>40</td>
<td>42</td>
<td>4</td>
</tr>
<tr>
<td>Derivative Products</td>
<td>35</td>
<td>19</td>
<td>4</td>
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</tbody>
</table>
## Results: Debt Issuance Category

<table>
<thead>
<tr>
<th>DEBT MANAGEMENT POLICY ELEMENTS</th>
<th>PERCENTAGE ADDRESSING ELEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>COUNTIES</td>
</tr>
<tr>
<td><strong>DEBT ISSUANCE</strong></td>
<td></td>
</tr>
<tr>
<td>Credit Objectives</td>
<td></td>
</tr>
<tr>
<td>Ratings</td>
<td>70</td>
</tr>
<tr>
<td>Relationships with Credit Raters</td>
<td>60</td>
</tr>
<tr>
<td><strong>METHOD OF SALE</strong></td>
<td></td>
</tr>
<tr>
<td>Competitive vs. Negotiated</td>
<td>45</td>
</tr>
<tr>
<td>Direct Loans</td>
<td>10</td>
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<tr>
<td>Private Placements</td>
<td>30</td>
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<tr>
<td>Premium Structures</td>
<td>0</td>
</tr>
<tr>
<td><strong>SELECTION OF PROFESSIONAL</strong></td>
<td></td>
</tr>
<tr>
<td>Request For Proposals (RFP)</td>
<td>20</td>
</tr>
<tr>
<td>Contract Evaluation and Terms</td>
<td>20</td>
</tr>
<tr>
<td>Conflicts of Interest</td>
<td>25</td>
</tr>
<tr>
<td><strong>REFUNDING</strong></td>
<td></td>
</tr>
<tr>
<td>Reasons for Refunding</td>
<td>75</td>
</tr>
</tbody>
</table>
## Results: Debt Management Category

<table>
<thead>
<tr>
<th>DEBT MANAGEMENT POLICY ELEMENTS</th>
<th>PERCENTAGE ADDRESSING ELEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>COUNTIES</td>
</tr>
<tr>
<td><strong>DISCLOSURE</strong></td>
<td></td>
</tr>
<tr>
<td>15c2-12 Requirements</td>
<td>55</td>
</tr>
<tr>
<td>Initial and Continuing</td>
<td>65</td>
</tr>
<tr>
<td>Obligated Person to Communicate</td>
<td>55</td>
</tr>
<tr>
<td><strong>INVESTMENT OF PROCEEDS</strong></td>
<td></td>
</tr>
<tr>
<td>Compliance with Federal Tax Law</td>
<td>55</td>
</tr>
<tr>
<td>Arbitrage Requirements</td>
<td>50</td>
</tr>
<tr>
<td>Direct to Investment Policy</td>
<td>15</td>
</tr>
</tbody>
</table>
## Results: Review and Approval

<table>
<thead>
<tr>
<th>Policy Characteristic</th>
<th>% of County Policies</th>
<th>% of City Policies</th>
<th>% of School District Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>A stand-alone document</td>
<td>80</td>
<td>28</td>
<td>89</td>
</tr>
<tr>
<td>A section in another policy</td>
<td>20</td>
<td>72</td>
<td>11</td>
</tr>
<tr>
<td>Dated</td>
<td>80</td>
<td>72</td>
<td>89</td>
</tr>
<tr>
<td>Provided for updates</td>
<td>35</td>
<td>17</td>
<td>7</td>
</tr>
<tr>
<td>Evidence of approval process</td>
<td>65</td>
<td>61</td>
<td>43</td>
</tr>
</tbody>
</table>
CDIAC Recognizes

- Every element in CDIAC’s review will not apply to every issuers — policy should recognize these situations
- The sampling method surely missed some very well developed debt policies
- The sampling did capture some high scoring policies

<table>
<thead>
<tr>
<th>Policies that Included 20 or More Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Butte County</td>
</tr>
<tr>
<td>Los Angeles USD</td>
</tr>
<tr>
<td>City of Fresno</td>
</tr>
<tr>
<td>City of Long Beach</td>
</tr>
<tr>
<td>Monterey County</td>
</tr>
<tr>
<td>Fresno County</td>
</tr>
<tr>
<td>San Luis Obispo County</td>
</tr>
<tr>
<td>Ventura County</td>
</tr>
<tr>
<td>City of Los Angeles</td>
</tr>
<tr>
<td>City of Oakland</td>
</tr>
<tr>
<td>City of Yuba City</td>
</tr>
<tr>
<td>City of Newport Beach</td>
</tr>
<tr>
<td>San Diego County</td>
</tr>
<tr>
<td>Yolo County</td>
</tr>
</tbody>
</table>
DEBT MANAGEMENT GUIDELINES AND PROCEDURES

Joanne Wilson, Financial Analyst
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMPETUS TO DEVELOP WRITTEN DEBT MANAGEMENT GUIDELINES AND PROCEDURES</td>
<td>3</td>
</tr>
<tr>
<td>INITIAL CONSIDERATIONS AND OBJECTIVES</td>
<td>4</td>
</tr>
<tr>
<td>INITIAL DRAFT OF THE GUIDELINES AND PROCEDURES</td>
<td>5</td>
</tr>
<tr>
<td>EXPANSION OF INITIAL OUTLINE (2010 – 2013)</td>
<td>6</td>
</tr>
<tr>
<td>COUNTY’S EXPERIENCE WITH THE GUIDELINES AND PROCEDURES</td>
<td>6</td>
</tr>
<tr>
<td>ADDITIONAL COMMENTS</td>
<td>7</td>
</tr>
<tr>
<td>WHAT NEXT?</td>
<td>8</td>
</tr>
</tbody>
</table>
IMPETUS TO DEVELOP WRITTEN GUIDELINES AND PROCEDURES

- County employees attended a CDIAC workshop in 2006 which focused on the benefits of adopting a debt management policy
  - The presenters provided convincing support to the substantial advantages to adopting clear debt management guidelines
  - Below is an illustration included in that workshop which left the County employees with a lasting impression of the value of having policies in place
  - Development of concurrent policies was encouraged
- Absence of uniform guidelines and procedures to evaluate debt issuance proposals

<table>
<thead>
<tr>
<th>An Example of the Power of Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund Balance Survey 1996</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>City</th>
<th>Policy?</th>
<th>If Yes, Description</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arroyo Grande</td>
<td>No</td>
<td></td>
<td>1%</td>
</tr>
<tr>
<td>Atascadero</td>
<td>No</td>
<td></td>
<td>1%</td>
</tr>
<tr>
<td>Grover Beach</td>
<td>Yes</td>
<td>20% of operating</td>
<td>20%</td>
</tr>
<tr>
<td>Morro Bay</td>
<td>Yes</td>
<td>27.5% of operating</td>
<td>15%</td>
</tr>
<tr>
<td>Paso Robles</td>
<td>Yes</td>
<td>15% of operating</td>
<td>13%</td>
</tr>
<tr>
<td>Pismo Beach</td>
<td>No</td>
<td></td>
<td>-14%</td>
</tr>
<tr>
<td>San Luis Obispo</td>
<td>Yes</td>
<td>20% of operating</td>
<td>21%</td>
</tr>
</tbody>
</table>
INITIAL CONSIDERATIONS AND OBJECTIVES

- Document the County’s goals for the use of debt instruments
- Articulate the County’s debt issuance values prior to encountering pressures
- Include an educational component for all readers
- Provide continuity with staff changes
- Establish guidelines and procedures to:
  - Address long-term capital improvement costs
    - Annually adopt a ten-year Capital Improvement Program (CIP). The CIP ensures planned financings conform to the Debt Management Guidelines and Procedures targets regarding:
      - Magnitude and composition of the County’s indebtedness
      - Economic and fiscal resources of the County to bear such indebtedness
  - Minimize the County’s debt service and issuance costs
  - Provide for the highest practical credit rating
  - Maintain full and complete financial disclosure and reporting
  - Give structure to debt evaluation
  - Insure the responsibilities for debt administration are understood
INITIAL DRAFT OF THE GUIDELINES

- First draft completed in 2006
- Incorporated guidelines from the debt policies of other municipalities
- We knew what we wanted to cover:
  - Table of Contents
    - Objectives
    - Debt Advisory Committee
    - Authority and Responsibility
    - Credit Issuance Guidelines
    - Capital Planning and Financing System for Long-Term Debt
    - Types and Purposes of Debt
    - Methods of Sale and Issuance
    - Selection of Financial Consultants and Service Providers
    - Term and Structure of County Long-Term Debt
    - Credit Ratings
    - Investment of Bond Proceeds
    - Refunding Long-Term Debt
    - Derivatives and Conduit Financings
    - Annual Audited Financial Statements
    - Financial Disclosures, Monitoring, and Recordkeeping
    - Ethics and Conflict of Interest
    - Appendix A – Proposed Financing Form (A feasibility analysis for each proposed financing)
EXPANSION OF INITIAL OUTLINE (2010-2013)

- Final policy adopted in May 2013
- Incorporated the answers to the IRS Form 14002 – Governmental Bond Financings Compliance Questionnaire
- Expanded the continuing disclosure, monitoring, and recordkeeping requirements
- Some resources used:
  - CDIAC Debt Issuance Primer
  - GFOA “A Guide for Preparing a Debt Policy”
  - GFOA “Debt Issuance and Management – A Guide for Smaller Governments”
  - Standard & Poor’s and Moody’s methodologies and criteria

COUNTY’S EXPERIENCE WITH THE DEBT MANAGEMENT GUIDELINES AND PROCEDURES

- Financing of one large capital project was analyzed and approved pursuant to the adopted Guidelines and Procedures
- Process of evaluating the debt issuance went extremely smoothly
- Thorough, transparent analysis
ADDITIONAL COMMENTS

- County elected not to refer to the document as “Policy”

- Debt evaluation process:
  - Financing needs are reviewed and analyzed by either the Chief Administrative Officer or the Treasurer depending upon whether it is a long-term or short-term debt issuance
  - If the financing is approved for escalation, a detailed, a written Financing Proposal will be presented to the Debt Advisory Committee.
    - The Financing Proposal must include the following information:
      - Detailed description of the type and structure of the financing
      - Full disclosure of the specific use of the proceeds and justification for borrowing as opposed to “pay-as-you-go”
      - A description of the public benefit to be provided by the project or proposal
      - The principal parties involved in the transaction
      - Anticipated sources of repayment
      - An estimated sources and uses statement
      - Any credit enhancements proposed
      - The anticipated debt rating, if any
      - An estimated debt service schedule and how it compares to the asset life
      - An analysis of the County’s debt ratios after the completion of the financing pursuant to established guidelines
      - An analysis demonstrating the completed project can be supported with ongoing cash flow
      - A thorough explanation of any exceptions to the Guidelines and Procedures
WHAT NEXT?

- Develop a separate, written Continuing Disclosure Policy as a companion to the Debt Management Guidelines and Procedures

- Regularly review and update the Guidelines and Procedures, as needed
CDIAC DEBT POLICY WEBINAR

CITY OF FRESNO - OCTOBER 22, 2014 - 10:00AM TO 11:00AM
WHY A DEBT MANAGEMENT POLICY?

• Provides guidelines and restrictions, improves quality of decisions, enables consistent debt structure, and aids to ensure long-range financial planning.

• Signals to rating agencies and investors that government is well managed and much more likely to meet its debt obligations.

• When approved by the governing body it provides credibility, transparency and a common understanding and goal among elected officials and staff as to the debt financing approach.
WHY FRESNO DEVELOPED A POLICY

• City had informal policies encompassing legal debt limits and other legal restrictions. There were no specific guidelines for the structure of debt issuance, particularly in the way of long-term planning with respect to capital improvement programs or reserve policies in the case of economic downturns and revenue declines.

• There were no requirements for annual evaluation of debt obligations using industry standard ratios, to determine if bond obligations should be limited or suspended for a period of time. Such ratios include:
  • Debt per capita; debt to personal income; debt to taxable property value or debt service payments as a percentage of general fund revenue or expenditures for Direct Debt.
  • Evaluation of adequacy of revenue stream (rates set) to meet debt service coverage for Revenue Debt
  • Plans or programs to systematically evaluate and adjust rates as necessary thereby reducing political influences over rates.

• Debt issuances were more politically driven as opposed to financially evaluated and long-range driven.
WHAT INITIATED THE POLICY DEVELOPMENT?

• Upon election to City Council, Councilmember Brand met with Finance Staff to review the City’s CAFR, particularly the City’s debt portfolio.
• Upon learning that there was no formal debt policy and staff’s desire to have one, the Councilmember took the lead and set about to create a policy.
• Desire to establish long-term comprehensive written policy that was flexible enough to encompass City’s needs but also to set specific limits, give consideration to financial impacts, include long-term planning considerations and set consistent debt structuring practices and best practices as they relate to Public Policies.
HOW TO - DEVELOPMENT OF POLICY

• Research consisted of extensive internet searches for existing and well written debt policies, discussions with Finance staff as to their desires, review of existing staff developed internal informal guidelines as well as discussions with external financial professionals and interested parties.

• Guidelines, allowances and restrictions were pulled from various sources as to what were considered best practices. Draft Policy was shared with Finance Staff, City’s Financial Advisor, City Chamber of Commerce, various City labor groups, Fresno Business Council, City Executive Management as well as other diverse interested parties. Feedback was provided by all.
ADOPTION OF DEBT POLICY AND THEREAFTER...


• On July 26, 2012, Council voted and directed City Attorney to prepare a ballot measure for the November 6, 2012 election to amend the City Charter for four items as a result of the recommendations of the City Charter Review Commission.

• Measure F included not only the formal adoption by the voters of the Debt Management Policy, but also the Reserve Management Act and the Better Business Act, which established a due diligence process when evaluating requests by the private sector for City financial assistance that exceed $1 million.

• Passed with 70% voter approval which implies strong public support for these policies.

• Policy thus far has guided refinancing decisions, as well as pre-spending prior to debt issuance. City has had limited debt issuances since its adoption due to economic conditions.
BRIEF OVERVIEW OF POLICY

• Policy covers:
  • Debit limits –
    • Legal restrictions
      • Local Charter and State constitution and law
    • Financial restrictions / planning considerations
      • Resource constraints, financial conditions, financial ratios
    • Internal Standards
      • Debt purpose
      • Types of debt
      • Relationship to Capital Improvement Program
    • Policy goals related to economic development, revenue streams, etc.
  • Financial Restrictions or Planning Considerations
    • Financial constraints such as refinancing, and financial ratios
BRIEF OVERVIEW OF POLICY - CONTINUED

• Debt Structuring Practices
  • Maximum terms
  • Average maturity, debt service pattern, use of redemption features, variable or fixed-rate considerations
  • Other structural considerations, such as capitalizing interest, deferral of principal, asset pledges

• Debt Issuance Practices
  • Selection and use of financial advisors, underwriters, bond counsel and other financing team members
  • Determination and criteria for bond sale method (competitive, negotiated, private placement) and investment of proceeds
  • Use of credit ratings, determination of the number of ratings and selection of rating agencies
BRIEF OVERVIEW OF POLICY - CONTINUED

• Debt Management Practices
  • Investment of bond proceeds
  • Market disclosures
  • Arbitrage rebate monitoring and filing
  • Other compliance practices and considerations

City of Fresno Debt Management Policy
Principles and Practices of Debt Management

October 22, 2014

Ron Bennett
Chief Executive Officer
Over a long period of time, school agencies received cash in advance for operating budget apportionments and relied on state bonds for capital projects.

- We have seen how quickly that can change during the past recession.
- Most school districts now issue a variety of debt instruments:
  - Tax Revenue Anticipation Notes (TRANS)
  - Certificates of Participation (COPs)
  - General Obligation Bonds (GOs)
  - Inter-fund Borrowing
  - Bridge Loans
  - Refunding Instruments
Debt policies guide the appropriate use of debt for school agencies

- Tax-supported voter-approved debt vs. appropriation debt
- Tax rate management
- Debt structure
- Appropriate use of short-term and long-term debt
- Public disclosure
- Analysis of costs of issuance

Debt policies help optimize capital funding decisions
When the state of California got into financial trouble, it cut budgets but also deferred payments to school agencies.
- We expect those actions will be considered by the state in the next financial crisis.

On the capital budget side, the last statewide school facilities bond was approved in 2006.
- These bonds were once the primary source of capital funding for schools.
- The state has also limited the imposition of higher developer fees.

Local bonds are now the primary source of funding for school facilities.
- Management of local bond issuances, expenditures, and refundings places a higher level of responsibility on local school districts.
- That higher management responsibility should be supported by consistent policies and procedures.

All of this argues for establishment of debt management policies.
In the absence of statewide school bonds, the local elections of 2012 demonstrate the increased reliance on local bonds and public support for those bonds.

- Passage of Proposition 39 in 2000 lowered approval requirement to 55%

Here is a summary of the results of 2012 elections:

<table>
<thead>
<tr>
<th>Number of General Obligation Bond Elections (Passed)</th>
<th>Total Dollars (In Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>116</td>
<td>$15.3</td>
</tr>
</tbody>
</table>

The pass rate for 2012, even during a major economic crisis, was 83%, very high by historical standards.
Local School Bonds on the Ballot for November 2014

- The trend toward reliance on local bonds is fueled by the fact that the state has not placed a statewide facilities bond on the 2014 ballot and will not be able to do so until at least 2016.

- Here is a summary of the local school bond issues slated for the November 2014 general election:

<table>
<thead>
<tr>
<th>Number of General Obligation Bond Elections (Proposition 39)</th>
<th>Total Dollars (In Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>113</td>
<td>$11.5</td>
</tr>
</tbody>
</table>

- We expect school agencies to again earn a very high passage rate.
Now is the Time to Review Debt Policies

- We recommend school agencies use the calm before the next storm to get their debt policies in order
  - The California Debt and Investment Advisory Commission (CDIAC) offers outstanding guidance and assistance
  - Some school districts have done excellent work on their polices, notably Los Angeles Unified School District
  - Assembly Bill 182 of 2014 sets out new legal standards for issuance of capital appreciation bonds: many of those standards have universal applicability
  - County government is ahead of school agencies in the area of debt policy; those examples can help school agencies get started

- School Services of California, Inc., will be following this webinar to ensure school agencies have access to CDIAC best practices information
QUESTIONS
Thank you for your participation.

A Certificate of Attendance will be emailed to you by the end of the week.

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