

CDIAC

**CALIFORNIA
DEBT AND
INVESTMENT
ADVISORY
COMMISSION**

CREATING SB 1029-COMPLIANT LOCAL DEBT POLICIES

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The Reason

Let's Start Here:

SB 1029 –
Hertzberg

Requires a
“certification”
of a debt
policy

By local
government
issuers

- Why must we do this?
- Why now?
- What problem is SB 1029 trying to address?



Events and Practices

- 1993 Capital Appreciation Bonds (CABs)
- K-12 CABs
- Community Colleges
- CDIAC Report - Employing a Debt Management Policy: Practices Among California Local Agencies

Debt Management Policies

General
Provisions:

Purpose

Tailored
documents

Adopted by
governing
body

- Improves *quality of decisions* by officials
- Tailored to the issuer's *specific needs and available financing options (through specific operating procedures)*
- Provides *credibility, understanding* of issuers approach to debt financing

GFOA Debt Management Policy Best Practices

- Debt Limits
- Debt Structuring
- Debt Issuance
- Debt Management
- Use of Derivatives (not covered)

SB 1029 Debt Policy Requirements

Government Code 8855(i) requires the following:

1. Purpose for debt and use
2. Type of debt that may be issued
3. Relationship of debt and integration with the issuer's capital improvement program or budget, if applicable
4. Policy goals related to the issuer's planning goals and objectives
5. Internal control procedures to ensure proceeds of the debt will be directed to the intended use

The Push for Debt Policies

GFOA



MSRB

Rating Agencies



CDIAC

Special Considerations for K-14 Education

- Most K-14 agencies have not previously adopted debt policies that meet the requirements that meet the requirements of SB 1029
- Most K-14 agencies have strict procedures for adoption of new policies
 - ▣ Multiple meetings for 1st, 2nd or even 3rd readings
 - ▣ Public input and comment

The November 2016 Election Results

Largest Issuers of G.O. Debt

Revenue
Bonds

COPs

Mello-Roos

- The November 2016 election yielded the largest number of education GO bonds in history
 - ▣ 165 K-14 agencies passed GO bonds
 - ▣ \$23.1 Billion, a pass rate of 90%
 - ▣ Most authorizations will have multiple issuances
- The public expects prudent, transparent use of these resources

Embrace the Letter and the Spirit of SB 1029

- School agencies are likely to have the largest number of bond issuances in the state over the next few years
- The spirit as well as the letter of SB 1029 have meaning for all of us
- We encourage school agencies to implement with fidelity and transparency
- This is an opportunity to adopt best practices and make them work

Establishing and Creating Debt Policies

- One size does not fit all
- Clear goals and objectives for issuing debt should be stated
- Create and establish debt policies that are consistent with the principal goals and objectives of the issuer
- Debt policy procedures should be appropriate and reasonably manageable for the issuer's staff and responsible officers

Debt Policy Requirements

- **Purposes for which the debt proceeds may be used and types of debt**
 - Include only debt the issuer or its related entity is specifically authorized by statute or other authorization to issue
 - Describe the debt, its authorization (e.g., state code reference) and purposes for which the debt proceeds may be used

Debt Policy Requirements, Cont'd

- Method of Sale
 - List the considerations and goals (e.g., achieving lowest financing costs) for determining which method to use and the responsible party for making such determination
 - Competitive Sales
 - Negotiated Sales
 - Private Placements

Debt Policy Requirements, Cont'd

- Factors in Structuring Each Debt Issuance
 - Maximum Term Limits: Average useful life of financed asset or maximum term allowed under applicable statute
 - Debt Service Amortization: Generally amortized on a level basis
 - Redemption Provisions: Should be considered in consultation with underwriter and financial advisor and provides best economic outcome for the issuer
 - Credit Enhancement: Set forth method to determine when to obtain

Debt Policy Requirements, Cont'd

- **Relationship of debt and integration with the issuer's capital improvement program or budget, if applicable**
 - Facilities Plan: Determine responsible party who should assess the capital needs of the issuer and the schedule for when facilities should be improved or financed and funding sources (including debt)
 - Budget: Incur debt with lowest possible impact on the general fund and reserves

Debt Policy Requirements, Cont'd

- **Policy goals related to the issuer's planning goals and objectives**
 - Statement that facilities financed by debt are consistent with the issuer's purpose and further the issuer's purpose
 - For example, policy goals of a school district would be to only finance facilities consistent with the school district's educational mission and that such facilities further this mission

Debt Policy Requirements, Cont'd

- **Internal control procedures that the issuer has implemented or will implement to ensure that the proceeds of the debt will be directed to the intended use**
 - ▣ Designate responsible officer(s) and/or department(s) for compliance
 - ▣ Establish written procedures for bond administration processes and bond requirements that support issuer's internal control system

Debt Policy Requirements, Cont'd

- ❑ Issuer should apply same system of internal control activities to bond funds as it does to all other governmental funds
- ❑ Confirm bond projects and other related expenditures are consistent with approvals and authorizations and legal documents (e.g., site visits)
- ❑ Monitor funds and accounts of trustee. Review statements and records for bond expenditures
- ❑ Confirm compliance with tax certificate covenants for the debt

Certification

What is a
certified Debt
Policy?

Report of
debt issuance

5 Elements

✓ “Yes” / “No”

Section 8855(i) reads “The report of proposed debt issuance shall include a *certification* by the issuer that it has adopted local debt policies...

- ❑ Local debt (only)
- ❑ Craft the five elements into the agency’s policy
- ❑ Respond to “Y”, “N” or “NA”
- ❑ What happens if “NO” is checked? ✓