



Midpeninsula Regional
Open Space District

ACTION PLAN AND BUDGET COMMITTEE

R-17-81
May 31, 2017

AGENDA ITEM 3

AGENDA ITEM

New Board Policy 3.09 – Debt Management Policy

GENERAL MANAGER'S RECOMMENDATION

A handwritten signature in black ink, appearing to be "S. J. ...".

Approve new Board Policy 3.09 - Debt Management Policy.

SUMMARY

The California Debt and Investment Advisory Committee (CDIAC) is requiring all local agencies to have a Debt Management policy (see Attachment 1) and to certify such a policy is in place each time debt is issued. The proposed Debt Management policy incorporates all the components recommended by CDIAC and by the Government Finance Officers Association (GFOA), as applicable to the District's requirements, to ensure the District's debt is issued and managed prudently.

DISCUSSION

CDIAC is requiring all local governments to adopt a Debt Management Policy and to certify to that fact when issuing debt (see Attachment 4). Aside from CDIAC requiring the local government to certify the Board has adopted a Debt Management policy, such a policy is a very prudent instrument for the Board and management to provide guidance and parameters for issuing and managing debt for the District.

The proposed Debt Management policy follows the categories as suggested by CDIAC and the GFOA: Debt Limits, Debt Structuring, Debt Issuance, and Debt Management. Each of the categories are tailored to the District's specific requirements, needs and practices. Certain categories refer or defer to the Disclosure for Bond Issuances Policy 3.06 (Attachment 3) and the Statement of Investment 3.08 (Attachment 4). In addition to internal review by the General Counsel and Controller, the draft policy was reviewed by the Financial Advisor, Underwriter, Bond Counsel, and Disclosure Counsel to ensure the policy does not contradict industry practices and processes.

Page 2 of the CDIAC attachment 4 lists many advantages to developing and adopting a Debt Management policy, some of which are:

- Supporting transparent and consistent financial decisions
- Establishing standard operating procedures
- Providing performance measures and limits based on predetermined levels and benchmarks

- Providing an interface between capital planning, long term financing objectives, and daily operations
- Providing consistency and instruction to new and transitioning staff

This Debt Management policy formalizes the District's current practices.

FISCAL IMPACT

No new fiscal impact. The revised policies will streamline existing procedures for compliance with obligations and practices under current debt issuances.

PUBLIC NOTICE

Public notice was provided as required by the Brown Act.

CEQA COMPLIANCE

This proposed action is not a project under the California Environmental Quality Act and no environmental review is required.

NEXT STEPS

Upon recommendation by the ABC, the new Board Policy will be presented to the full Board on June 28, 2017

Attachments:

1. Debt Management Policy 3.09
2. Disclosure for Bond Issuances Policy 3.06
3. Statement of Investment 3.08
4. Employing a Debt Management Policy (CDIAC)

Responsible Department Manager:
Stefan Jaskulak, Chief Financial Officer

Prepared by:
Andrew Taylor, Finance Manager and Disclosure Coordinator

Midpeninsula Regional Open Space District

Board Policy Manual

Debt Management Policy	Policy 3.09 Chapter 3 – Fiscal Management
Effective Date: xx/xx/2017	Revised Date: N/A
Prior Versions: N/A	

Purpose

The Debt Management Policy and procedures contained herein (the “**Debt Management Policy**”) sets forth certain debt management objectives for the Midpeninsula Regional Open Space District (the “**District**”) and establishes overall parameters for issuing and administering the District's debt in compliance with applicable federal and state securities laws. The Board may issue debt that does not comply with this policy should the Board determine that doing so is necessary or desirable, and the issuance of any such debt shall be conclusive evidence of such determination. This Debt Management Policy is closely related to the policy for Initial and Continuing Disclosures Relating to Bond Issuances – Policy 3.06 of Chapter 3 Fiscal Management (the “**Disclosure Policy**”).

Policy

Article I: Key Participants and Responsibilities

The Key Participants in the Debt Management process are the members of the Financing Group as identified and designated in the Disclosure Policy, Section 1.03. The Responsibilities of the various members of the Financing Group are detailed in Section II of the Disclosure Policy. [Disclosure Policy](#)

Article II: Debt Limits

Section 2.01. Purpose for Debt Issuance. The District may issue new debt to finance and refinance capital improvement projects or land acquisitions for either General Fund purposes or in support of Measure AA portfolios and projects. Any General Fund debt must be repaid via the General Fund tax revenue and budget, whereas any debt issued under Measure AA must be repaid via the special property tax levy as authorized under Measure AA. As part of the calculation to determine the need for new debt, the District will review the useful life of the proposed projects and ensure this useful life is not significantly shorter than the term of the debt, and in any case compliant with Federal tax law restrictions governing the weighted average maturity of a debt issue in relation to the financed projects' useful life. The approach to determine the amount of new debt to be issued will include an assessment of any self-funded pay-go funding sources and will be integrated into the District's multi-year capital plan.

Section 2.02. Legal Debt Limitations. The District is bound by, or utilizes, four different debt limitations: State, General Fund budget, bond Indenture covenants and Measure AA voter authorization.

- i. Under Public Resources Code Section 5568, the District's legal authority to incur indebtedness is limited to five percent of the assessed valuation of the real and personal property situated in the District.

- ii. The General Fund debt limitation is constrained by the property tax received, less ongoing operating expenses. Each year, the annual budget is prepared and modeled into the Controller's thirty-year cash flow, which includes conservative inflation and projects the viability of any increases in operating, capital or debt service in the General Fund. Any proposed General Fund debt issuance, new or refunding, is modeled using the Controller's cash flow model.
- iii. General Fund debt is limited by covenants made by the District to bond holders in the bond indenture. The District covenants it will not issue debt that is senior in priority to the existing general fund revenue bonds. In addition, debt on parity with existing revenue bonds is limited by the District Act (Article 3 of Chapter 3 of Division 5 of the Public Resources Code), which requires that total debt outstanding does not exceed the amount of general fund property tax revenues anticipated by the District for the next five-year period, and that annual tax revenue in the most recent audited fiscal year exceeds maximum annual debt service of outstanding bonds by 125%.
- iv. The Measure AA debt limitation is constrained by the \$300 million voter authorization per the 2014 referendum as well as the limitation that Measure AA annual debt service must be payable with the Measure AA property tax collections not to exceed the self-imposed tax rate of \$3.18 per \$100,000 of Assessed Value. The calculation to ensure that the debt service does not exceed a tax rate in excess of \$3.18 per \$100,000 of Assessed Value shall be calculated at issuance of the debt with the information available at that time and exclude any one-time funds, such as bond premium. Should the tax rate exceed \$3.18 at any time after the debt has been issued, no new debt shall be issued until such time as the debt service payments can again be paid from tax collections not exceeding a \$3.18 tax rate.

Section 2.03. Types of Permitted Debt. The District may issue a variety of debt instruments and obligations.

- i. Long-term borrowing (maturity greater than 1 year) may be used to finance the acquisition or improvement of land, facilities, or equipment for which it is appropriate to spread these costs over more than one budget year. Long-term borrowing may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing related costs which may be legally capitalized. Long-term borrowing shall not be used to fund operating costs.
- ii. Short-term borrowing (maturity of one year or less), such as lines of credit or commercial paper, will be considered as an interim source of funding to be utilized when appropriate. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing related costs.
- iii. All long-term debt shall be issued as fixed rate debt. Variable rate debt may be issued if determined to be advantageous to the District.
- iv. Relationship of Debt to Capital Improvement Program: The District maintains a five-year Capital Improvement plan, which it expects to fund through a combination of Measure AA proceeds, General Fund Monies, and grants. While the District does not expect debt to be the sole source of funding for the CIP, the District may issue debt in addition to bonds approved under Measure AA (including those types of debt discussed herein) should doing so become necessary to meet the District's capital needs.

- v. Policy Goals Related to District Objectives: The District's objective is to meet its capital needs economically, and intends only to use debt as a funding source when the Board determines doing so would be both fiscally responsible and aligned with the District's policy objectives.

Article III: Debt Structuring

Debt issued by the District, new or refunding, may have various features and structures.

- i. The debt shall be callable no later than eleven years from the date of issuance. If the final maturity is less than fifteen years, a call feature shorter than ten years shall be evaluated by the CFO and Controller together with the financial advisor and underwriter as deemed appropriate by the CFO and Controller. If advantageous to the District, the CFO and Controller may recommend the use of a shorter call feature for maturities fifteen years or longer as well.
- ii. The maturity for new debt issued is usually thirty years, unless the useful life of the projects is significantly shorter than thirty years, in which case the maturity shall be shortened to match the useful life, or, in the case of a large one-time capital expenditure, where the cash flow need may be much shorter than thirty years. The final maturity for refunding debt shall be no later than the final maturity of the refunded debt.
- iii. Given the District's historically very strong credit ratings, utilizing credit enhancement in connection with a debt issuance has not been financially advantageous to the District. However, should credit enhancement prove effective in lowering the District's all-in borrowing cost on a debt issuance in the future, the District retains the option to utilize such credit enhancement. Such evaluation will be made by the CFO and Controller together with the financial advisor and underwriter as deemed appropriate by the CFO and Controller.
- iv. The use of derivative products (a financial instrument which 'derives' its value from another instrument) is not permitted.

Article IV: Debt Issuance

The District shall assess the impact of new debt issuance on the thirty-year long-term affordability model as developed by the Controller. This model includes future debt service, capital improvement projects and operational expenditures, adjusted for inflation and growth over thirty years. Any debt issued, and the associated debt repayment schedule, must be evaluated and affordable according to this thirty-year model.

Section 4.01. Credit Objectives. The District shall make every reasonable effort to maintain its high credit ratings. The District shall seek a credit rating on all new publicly placed bond issues from at least one nationally recognized credit rating agency. The District shall maintain a line of communications with the bond rating agencies reporting annual financial reports, budget and other major information as they occur.

Section 4.02. Method of Sale. The District may issue debt via negotiated sale, a competitive bid process or private placement. The CFO and Controller, together with the Financial Advisor, shall review and evaluate the best method of sale for each issuance.

Section 4.03. Selection of External Financial Professionals. The District shall utilize the services of various independent advisors, consultants and other financial institutions and professionals. Such services, depending on the type of financing, may include financial advisor, underwriter, bond counsel, disclosure counsel, trustee, verification agent, escrow agent, arbitrage consulting, and special tax consulting. The financial advisor, underwriter, bond counsel, and disclosure counsel shall be selected via a competitive Request for Proposal (RFP) process initiated and managed by the Chief Financial Officer and evaluated by the Disclosure Working Group. Other services may be contracted via sole source or directly authorized.

Section 4.04. Refunding of Debt. The District shall periodically review its outstanding debt to identify refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit from the refunding. In general, refundings which produce a net present value savings of at least three percent (3%) of the refunded debt will be considered economically beneficial. Refunding which produce a net present value savings of less than three percent (3%) will be considered on a case-by-case basis. In evaluating the economic benefit of refundings considered “advance refundings”, the District will also evaluate the escrow efficiency in consultation with the District’s financial advisor and underwriter.

Article V: Debt Management

Section 5.01. Disclosure. The District’s Board of Directors adopted a separate Disclosure Policy, which policy includes 15c2-12 requirements, initial and continuing disclosure requirements, and outlines the responsibilities of District staff, consultants and advisors. [Disclosure Policy](#)

Section 5.02. Investment of Bond Proceeds. The District shall invest bond proceeds consistent with applicable federal and state law and tax requirements, including any arbitrage calculations and reporting, as well as consistent with the District’s Board adopted Policy titled Statement of Investment 3.08. [Statement of Investment](#)

Article VI: Controls, Reporting, and Miscellaneous

Section 6.01. Internal Controls. To ensure the bond proceeds are managed and spent as intended, the District has the following processes in place:

- i. Reporting of bond funds generated by a financing secured by General Fund revenues shall be included in the Annual Financial Report.
- ii. Reporting and review of bond funds spent under Measure AA authorization is outlined in the Measure AA election documentation:

An Independent Citizen Oversight Committee will be formed to verify expenditures of bond proceeds. The Independent Citizen Oversight Committee will consist of seven at-large members, all of whom shall be District residents. The Citizen Oversight Committee will be selected by the Board and interviewed and approved in open session, and will be subject to the conflict of interest constraints of the California Political Reform Act.

The responsibilities of the Committee include:

- *Review Plan expenditures on an annual basis to verify conformity with the Expenditure Plan.*

- *Review District's Annual Audit and Annual Accountability report and present the Committee's findings to the Board at a public meeting.*
 - *Review any proposed amendments to the Expenditure Plan.*
- iii. Reporting of bond funds expended to refund existing bonds shall be included in the final refunding report to the Board of Directors.

Section 6.02. Documents to be Retained. Section 5.01 of the Disclosure Policy provides document retainage requirements applicable to debt issuances. [Disclosure Policy](#)

Section 6.03. Waivers. In addition to the General Manager's authority to adopt an Administrative Procedure to make this Board Policy more specific, any provision of this Board Policy or any related administrative procedure may be waived at any time by the General Manager, with the written confirmation to the members of the Disclosure Working Group. This authority to waive a provision of this policy is triggered only if such waiver is necessary for timely and effective issuance of debt in compliance with any applicable laws. Any waivers made under this provision shall be reported to the Board of Directors, with conforming revisions recommended for the Board's consideration at the next update of this Board Policy and no later than three months from the implementation of such waiver.

Section 6.04. Periodic Review. This policy shall be reviewed and affirmed annually by the Board of Directors.

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Initial and Continuing Disclosures Relating to Bond Issuances	Policy 3.06 Chapter 3 – Fiscal Management
Effective Date: 04/01/2015	Revised Date: 03/22/2017
Prior Versions: 04/01/2015	
Attachments: A – List of Disclosure Documents, to be Amended as Necessary B – Listed Events C – Template of Information to be included in the Staff Report Transmitting Official Statement by General Manager to Board of Directors	

Purpose

Whenever the District makes statements or releases information relating to its finances to the public that are reasonably expected to reach investors and the trading markets (including, without limitation, all Listed Event Notices, statements in the audited Financial Statements, and other financial reports and statements of the District), the District is obligated to ensure that such statements and information are complete, true, and accurate in all material respects.

The disclosure policies and procedures contained herein (the “**Disclosure Procedures**”) of the Midpeninsula Regional Open Space District (the “**District**”) are intended to ensure that the District’s disclosure documents (the “**Disclosure Documents**”), as listed on Attachment A to these Disclosure Procedures, are complete, true, and accurate in all material respects, and in compliance with applicable federal and state securities laws.

Policy

Article I: Key Participants and Responsibilities

Section 1.01. Disclosure Working Group.

(A) *Composition.* By adoption of these Disclosure Procedures, the District hereby establishes a disclosure working group (the “**Disclosure Working Group**”). The members of the Disclosure Working Group shall be the following:

- i. General Manager;
- ii. Chief Financial Officer
- iii. Controller; and
- iv. General Counsel.

(B) *Responsibilities.* The Disclosure Working Group shall consult with the Financing Group (as defined in Section 1.03) and other interested parties as necessary or helpful. The Disclosure Working Group shall meet as often as necessary to fulfill its obligations, but not less than once per calendar year. Members of the Disclosure Working Group may participate in meetings by telephone.

The Disclosure Working Group is responsible for:

- i. Reviewing and approving all preliminary and final official statements, private placement memoranda and remarketing memoranda relating to the District's securities, together with any supplements, for which a continuing disclosure undertaking is required (each, an "**Official Statement**") as further described in Article II, before such documents are released to the public;
- ii. Reviewing and approving the District's Financial Statements (as defined and further described in Section 3.02 below);
- iii. Reviewing and approving any other Disclosure Documents before such documents are released;
- iv. Reviewing annually the District's status and compliance with continuing disclosure undertakings including filings of Disclosure Documents and compliance with these Disclosure Procedures and the annual financial report as described in Article III below;
- v. Reviewing any other items referred to the Disclosure Working Group; and
- vi. Evaluating the effectiveness of these Disclosure Procedures and approving changes to these Disclosure Procedures as further described in Section 5.04 of this Policy.

(C) *Determination of Disclosure Document Status.* Whether or not a particular document or other communication is a Disclosure Document shall be determined by the Disclosure Working Group. At its initial meeting, the Disclosure Working Group shall establish a list of the District's recurring Disclosure Documents, which list shall be added to Attachment A to these Disclosure Procedures to the extent such documents are not already contained therein. The Disclosure Working Group shall update Attachment A to these Disclosure Procedures when appropriate.

(D) *Review and Approval.* Following receipt of a Disclosure Document from the disclosure coordinator (the "**Disclosure Coordinator**"), the Disclosure Working Group shall review the Disclosure Document for accuracy and compliance with federal and state securities laws, direct questions to the Disclosure Coordinator, and approve a substantially final form of the Disclosure Document, which approval may be evidenced by an email transmitted to the Disclosure Coordinator by the General Manager or his/her designee and a copy of which email shall be printed and maintained in the Deal File described in Section 5.01, or by such other written evidence.

The Disclosure Coordinator shall consult with the District's disclosure counsel to the extent the Disclosure Coordinator considers appropriate to perform his or her responsibilities.

Section 1.02. Disclosure Coordinator.

(A) *Appointment.* The Finance Manager is appointed as the Disclosure Coordinator. If the position of Finance Manager is vacant, the Chief Financial Officer, in consultation with the other members of the Disclosure Working Group, shall select and appoint the Disclosure Coordinator.

(B) *Responsibilities.* The Disclosure Coordinator shall be responsible for:

- i. Serving as a “point person” for personnel to communicate issues or information that should be or may need to be included in any Disclosure Document, identifying District personnel that will assist in preparing and reviewing the Disclosure Documents (the “Contributors”);
- ii. Reviewing annually all continuing disclosure undertakings, preparing a checklist of updated information to be provided;
- iii. Recommending changes to these Disclosure Procedures to the Disclosure Working Group as deemed necessary or appropriate;
- iv. Communicating with third parties, including coordination with outside consultants assisting the District in preparing and disseminating Disclosure Documents to make sure that assigned tasks are completed timely, and that the filings are accurate and made timely;
- v. Soliciting “material” information (as defined for purposes of federal securities law) from District departments to prepare Disclosure Documents;
- vi. Monitoring compliance by the District with these Disclosure Procedures, including timely dissemination of the Annual Report and Listed Event filings, and maintaining records documenting the District’s compliance with these Disclosure Procedures;
- vii. Determining when Disclosure Documents are final and ready for review by the Disclosure Working Group to the extent required by these Disclosure Procedures; and
- viii. Identifying District personnel that should receive disclosure training, and ensuring compliance with training procedures described in Section 1.02(C).

The Disclosure Coordinator is authorized to file or cause to be filed the following documents with the Municipal Securities Rulemaking Board (the “MSRB”), without prior review and approval of the Disclosure Working Group, but only after prior review and approval from the Chief Financial Officer: those Disclosure Documents that (i) the District is contractually obligated to file with the MSRB pursuant to written undertakings as a result of the occurrence of a Listed Event (as defined in Attachment B), or (ii) as a result of the failure to timely file the required annual financial report.

(C) *Training.* The Disclosure Coordinator shall arrange for annual disclosure training conducted by the District’s disclosure counsel with the assistance of the General Counsel, for the Board of Directors members, the Disclosure Working Group, and Contributors. Such training sessions shall include education on these Disclosure Procedures, the District’s disclosure obligations under applicable federal and state securities laws, and the disclosure responsibilities and potential liabilities of members of District staff and members of the Board of Directors. Such training sessions may be conducted using a recorded presentation.

Each member of the Board of Directors, and new members of the Finance Department shall be required to participate in disclosure training as part of his or her new member orientation.

Section 1.03. Financing Group.

General. The General Manager or his/her designee shall identify a Financing Group (the “**Financing Group**”) for each financing (the composition of which may differ for each financing), which shall include, at a minimum, the following individuals:

- i. Disclosure Working Group;
- ii. Disclosure Coordinator;
- iii. The District’s bond counsel and disclosure counsel;
- iv. The District’s financial advisor (if any);
- v. The District’s underwriter, placement agent, remarketing agent (as applicable);
- vi. The District’s dissemination agent (if any);
- vii. Such other such District staff as the General Manger or his/her designee determines to be appropriate; and
- viii. Such other consultants retained by the District as the General Manager or his/her designee determines to be appropriate.

It is the District’s policy to establish continuing working relationships with professional advisors with expertise in the area of public finance and federal securities laws applicable to the issuance of securities by the District.

Article II: Review and Approval of Official Statements

Section 2.01. Responsibilities of Financing Group. The Financing Group shall prepare the Official Statement

and confirm that the Official Statement: (a) has been reviewed and accurately states all information relating to the District, (b) confirm that any information in the Official Statement other than the information described in the previous clause (a) will be addressed by a closing certificate or opinion by an appropriate person, (c) contains a description of any failures of the District during the last five yars to comply with its continuing disclosure undertakings; and (d) is in substantially final form and is in a form ready to be “substantially final” by the Board of Directors, as evidenced by a Certificate executed and delivered by a member of the Financing Group pursuant to Rule 15c2-12, promulgated by the Securities and Exchange Commission. The Financing Group shall have at least one all-hands meeting or conference call to review the Official Statement.

Section 2.02. Responsibilities of General Counsel. The General Counsel (or a designee) shall review the Official Statement and shall draft for the Official Statement descriptions of (i) any material current, pending or threatened litigation, (ii) any material settlements or court orders and (iii) any other legal issues that are material information for purposes of the Official Statement.

Section 2.03. Responsibilities of Controller and Chief Financial Officer. The Controller and Chief Financial Officer shall review the Official Statement, identify any material difference in presentation of financial information from the Financial Statements and ensure there are no misstatements or

omissions of material information in any sections that contain descriptions of information prepared by the Controller and/or Chief Financial Officer or other Contributors or of relevance to the finances of the District.

In addition, the Controller and/or Chief Financial Officer shall determine whether the District's then-available Financial Statements are appropriate to be included in the Official Statement and whether to seek the consent of the District's auditor to include the Financial Statements in the Official Statement.

Section 2.04. Review by Disclosure Working Group. Following receipt of the Official Statement from the Financing Group, the Disclosure Working Group shall evaluate the Official Statement for accuracy and compliance with federal and state securities laws, and shall, have an opportunity to ask questions of the Financing Group and of any Contributor or other person who reviewed or drafted any section of the Official Statement. The Disclosure Working Group may direct or request revisions and/or may instruct the Financing Group to solicit contributions from additional Contributors, as they deem necessary or appropriate.

Section 2.05. Approval by Disclosure Working Group. Approval of the Official Statement by the Disclosure Working Group shall be evidenced by delivery of the Official Statement to the General Manager for docketing for a meeting of the Board of Directors as provided in Section 2.07.

Section 2.06. Submission of Official Statements to Board of Directors for Approval. As part of the docketing process, the General Manager shall submit all Preliminary Official Statements to the Board of Directors for approval using a staff report that includes the information in the template attached as Attachment C to these Disclosure Procedures. The approval of an Official Statement by the Board of Directors shall be docketed as a new business matter and shall not be approved as a consent item. The Board of Directors shall undertake such review as deemed necessary, following consultation with the Controller, to fulfill the responsibilities of the Board of Directors under applicable federal and state securities laws. In this regard, the Controller shall consult with the District's disclosure counsel to the extent necessary.

Article III: Continuing Disclosure Filings

Section 3.01. Overview. Under the continuing disclosure undertakings the District has entered into in connection with its debt offerings, the District is required each year to file Annual Reports with the Electronic Municipal Market Access ("**EMMA**") system maintained by the MSRB in accordance with such undertakings. Such Annual Reports are required to include certain updated financial and operating information, and the District's audited financial statements.

The District is also required under its continuing disclosure undertakings to file notices of certain events (as summarized in Attachment B to these Disclosure Procedures) with EMMA.

Section 3.02. Financial Statements. The Chief Financial Officer shall submit the District's audited financial statements ("**Financial Statements**"), as they are available, to the Disclosure Working Group. The Disclosure Working Group shall review the audited Financial Statements according to these Disclosure Procedures and, when reviewed and approved for disclosure, shall transmit the audited Financial Statements to the Board of Directors.

If the District does not have audited Financial Statements available in time to file the Annual Report, the Chief Financial Officer shall submit the District's unaudited financial statements as provided in each specific continuing disclosure undertaking.

Section 3.03. Annual Reports. The Disclosure Coordinator shall ensure that the preparation of the District's Annual Report shall commence in enough time so that they are filed no later than 210 days following the end of the fiscal year of the District, or as otherwise required under each specific continuing disclosure undertaking. Before any Annual Report is submitted to EMMA, the Disclosure Coordinator shall review outstanding continuing disclosure undertakings, prepare a checklist of information to be updated, supervise the preparation of the Annual Report, and confer with the Disclosure Working Group as needed regarding the content and accuracy of any such report.

Section 3.04. Disclosure of Listed Events. Pursuant to Rule 15c2-12(b)(5)(i)(C), the District is obligated to disclose to the MSRB notice of certain specified events with respect to the District's securities (a "**Listed Event**"). Each member of the Disclosure Working Group shall notify the other members of the Disclosure Working Group if he or she becomes aware of the occurrence of any of the Listed Events listed in the District's continuing disclosure undertakings. The Disclosure Working Group may meet to discuss the event and to determine, in consultation with disclosure counsel to the extent determined by the Disclosure Coordinator, whether a filing is required or is otherwise desirable. If such a filing is deemed necessary, the Disclosure Coordinator shall cause a notice of the Listed Event (a "**Listed Event Notice**") that complies with Rule 15c2-12 to be prepared, and the Disclosure Coordinator shall file or cause to be filed the Listed Event Notice as required by Rule 15c2-12.

Article IV: Public Statements Regarding Financial Information

Section 4.01. Financial Information. Whenever the District makes statements or releases information relating to its finances to the public that are reasonably expected to reach investors and the trading markets (including, without limitation, all Listed Event Notices, statements in the audited Financial Statements, and other financial reports and statements of the District), the District is obligated to ensure that such statements and information are complete, true, and accurate in all material respects. The Chief Financial Officer shall have primary responsibility for ensuring that such financial statements and information are accurate and not misleading in any material respect.

Article V: Miscellaneous

Section 5.01. Documents to be Retained. The Disclosure Coordinator, working with the District Clerk as needed, shall be responsible for retaining records demonstrating compliance with these Disclosure Procedures. The Disclosure Coordinator shall retain an electronic or paper file ("**Deal File**") for each Annual Report and notice of Listed Events filed or caused to be filed by the District. Each Deal File shall include final versions of Disclosure Documents, the transcript of proceedings prepared in connection with the issuance of financial instruments. The Deal File shall be maintained in a central depository for a period equal to the later of the date of maturity or defeasance of the securities referenced in the Disclosure Document.

Section 5.02. Waivers. In addition to the General Manager's authority to adopt an Administrative Procedure to make this Board Policy more specific, any provision of this Board Policy or any related administrative procedure may be waived at any time by the General Manager, with the written confirmation to the members of the Disclosure Working Group. This authority to waive a provision of this policy is triggered only if such waiver is necessary for timely and effective compliance with disclosure laws. Any waivers made under this provision shall be reported to the Board of Directors, with

conforming revisions recommended for the Board's consideration at the next update of this Board Policy and no later than within three months of implementation of such waiver.

ATTACHMENT A

LIST OF DISCLOSURE DOCUMENTS, TO BE AMENDED AS NECESSARY

1. Preliminary and final official statements, private placement memoranda and remarketing memoranda relating to the District's securities, together with any supplements.
2. Financial Statements.
3. Filings made by the District with the Municipal Securities Rulemaking Board, whether made pursuant to a continuing disclosure undertaking to which the District is a party or otherwise.
4. Press releases and other information distributed by or on behalf of the District for public dissemination to the extent that such releases are reasonably expected, in the determination of the Disclosure Working Group, to reach investors and the trading markets for municipal securities.
5. Rating agency presentations.
6. Postings on the investor information section of the District's website, if any.
7. Such portions of the District's published adopted annual budget as the Disclosure Working Group determines to be appropriate.
8. Any other communications that are reasonably expected, in the determination of the Disclosure Working Group, to reach investors and the trading markets for municipal securities.

Amendments:

[Date]

ATTACHMENT B

LISTED EVENTS

Occurrence of any of the following events require the District to make a filing on EMMA within ten (10) business days of their occurrence:

1. principal and interest payment delinquencies
2. unscheduled draws on debt service reserves reflecting financial difficulty
3. unscheduled draws on credit enhancements reflecting financial difficulty
4. substitution of credit or liquidity providers, or their failure to perform
5. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other events affecting the tax-exempt status of the security
6. tender offers
7. defeasances
8. rating changes
9. bankruptcy, insolvency, receivership or similar event of the obligated person

The occurrence if any of the following events require the District to file a notice on EMMA within ten (10) days after their occurrence, if they are determined to be material by the Disclosure Working Group:

1. non-payment related defaults
2. modifications to the rights of security holders
3. bond calls
4. release, substitution or sale of property securing repayments of the securities
5. the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms
6. appointment of a successor or additional trustee or the change of name of a trustee

ATTACHMENT C

Information to be Included in the Staff Report Transmitting Official Statement by General Manager to Board of Directors

Transmittal staff report shall include, but is not limited to, the following information:

The attached Preliminary Official Statement has been reviewed and approved for transmittal to the Board by the District's Disclosure Working Group. The distribution of the Preliminary Official Statement by the District is subject to federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require the Preliminary Official Statement to include all facts that would be material to an investor in the Obligations. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the Obligations. If the Board of Directors concludes that the Preliminary Official Statement includes all facts that would be material to an investor in the Obligations, it must adopt a resolution that authorizes staff to execute a certificate to the effect that the Preliminary Official Statement has been "deemed final."

The Securities and Exchange Commission (the "SEC"), the agency with regulatory authority over the District's compliance with the federal securities laws, has issued guidance as to the duties of the elected body with respect to its approval of the Preliminary Official Statement. In its "Report of Investigation in the Matter of County of Orange, California as it Relates to the Conduct of the Members of the Board of Supervisors" (Release No. 36761 / January 24, 1996) (the "Release"), the SEC stated that, if a member of the elected body has knowledge of any facts or circumstances that an investor would want to know about prior to investing in the Obligations, whether relating to their repayment, tax-exempt status, undisclosed conflicts of interest with interested parties, or otherwise, he or she should endeavor to discover whether such facts are adequately disclosed in the Preliminary Official Statement. In the Release, the SEC stated that the steps that a member of the elected body take include becoming familiar with the Preliminary Official Statement and questioning staff and consultants about the disclosure of such facts.

Section 1. *Purpose of Financing.*

Section 2. *Documents for Approval; Security for the Obligations.*

Section 3. *Risks Relating to Repayment and Tax-Exempt Status of the Obligations.*

Section 4. *Requested Approvals.*

Midpeninsula Regional Open Space District

Board Policy Manual

Statement of Investment	Policy 3.08 Chapter 3 – Fiscal Management
Effective Date: 1/8/97	Revised Date: 5/10/17
Prior Versions: 1/8/97; 1/10/01; 1/16/02; 1/8/03; 1/14/04; 1/12/05; 1/11/06; 1/10/07; 1/16/08; 1/13/10; 1/12/11; 1/11/12; 1/24/13; 1/22/14; 1/28/15; 8/12/15; 8/10/16	

Goals

Goal 1. Capital Preservation

The primary goal shall be to safeguard the principal of invested funds. The secondary objective shall be to meet the liquidity needs of the District. The third objective shall be to achieve a return on funds consistent with this Policy. Temporarily idle funds shall be invested in a conservative manner, such that funds can always be withdrawn at, or just above or below, full invested value. Investments that offer opportunities for significant capital gains and losses are excluded.

Goal 2. Liquidity

Temporarily idle funds shall be managed so that normal operating cash needs and scheduled extraordinary cash needs can be met on a same day basis. Investments shall be sufficiently liquid to provide a steady and reliable flow of cash to the District to insure that all land purchases can be made promptly (within two weeks).

Goal 3. Income

Temporarily idle funds shall earn the highest rate of return that is consistent with capital preservation and liquidity goals and the California Government Code.

Guidelines

1. Determination of Idle Funds

The Controller shall prepare a cash flow projection prior to all investment decisions involving securities with a term to maturity exceeding one year. This cash flow projection shall be reviewed and evaluated by the General Manager or Chief Financial Officer (CFO). The General Manager or CFO are responsible for approving the Controller's designation of the amount of funds available for investment for longer than one year.

2. Restricted Reserves

[a] MROSD Retiree Healthcare Plan: All funds are to be held by CalPERS and managed by CalPERS.

[b] Hawthorn Endowment Fund: All funds will be held in a separate account and invested in accordance with this policy.

[c] Debt Service Reserve Funds Held by Bond Trustees: Funds held by such trustees shall be invested in accordance with the bond indenture or other agreement providing for the issuance and management of such debt.

3. General Fund Committed Reserves

At least one-half of the total general fund committed reserve requirement shall be maintained, at all times, with the Santa Clara County Pooled Investment Fund (SCCPIF).

4. General Fund Un-Assigned Contingency Reserve

In addition to any committed fund reserve requirement, a general fund contingency reserve of at least \$10 million shall be maintained, at all times, with the SCCPIF.

5. General Obligation Bond Proceeds Held by Fiscal Agent

Bond Proceeds held by the District's Fiscal Agent, either in the Debt Service Fund or Bond Proceeds Fund, shall be invested through the investment department of the Fiscal Agent and in accordance with the Fiscal Agent Agreement.

6. Non-Invested Funds

Idle District funds not otherwise invested as permitted by this Policy shall be deposited with the Santa Clara County Pooled Investment Fund, the San Mateo County Treasurer's Pooled Investment Fund, the State of California's Local Agency Investment Fund or CalTRUST.

7. Selection of Investments

The Controller is responsible for selecting investments that fit within the amounts and maturities recommended by the Controller and by the General Manager or CFO. The Controller is also responsible for directing security transactions.

8. Investments Instruments and Deposit of Funds

Investments and deposits of funds shall be limited to those allowed by and subject to the procedures of Government Code Section 53600 *et seq.* and 53635 *et seq.* In the event of any conflict between the terms of this Policy, and the Government Code, the provisions of the Government Code shall prevail. Investments shall not be leveraged. Investments, and "derivatives," that offer opportunities for significant capital gains and losses are excluded. If after purchase, securities are downgraded below the minimum required rating level, the securities shall be reviewed for possible sale with a reasonable amount of time after downgrade. Significant downgrades and the action taken or to be taken will be disclosed in the next monthly report.

9. Maximum Maturity

The average maturity of the total District investment portfolio shall not exceed eighteen months and no investment, except for debt service reserve funds held by bond trustees, shall have a maturity of more than three years from the date of purchase. The maturity of investments in trustee-held debt service reserve funds shall not exceed the final debt service payment date of the bonds.

10. Diversification

Investments shall meet the diversification test of Government Code Section 53601.7(c), stating that no more than 5% of the total investment portfolio may be invested in the securities of any one issuer, except for the obligations of the U.S. Treasury or U.S. Government Agencies.

11. Marketability

For investments other than bank certificates of deposits the breadth of ownership and number of securities outstanding shall be sufficient to establish a secondary market in which investments can be readily converted to cash without causing a material change in their market value.

12. Acceptable Banks

Bankers' Acceptances and Negotiable Certificates of Deposit may be purchased only from the District's commercial bank or banks and savings and loan associations with over \$1,000,000,000 of deposits and reporting profitable operations and which meet all applicable criteria of the Government Code. Certificates of Deposit may be purchased from other banks within Santa Clara and San Mateo Counties which meet all applicable criteria of the Government Code if the principal is fully insured by the Federal Deposit Insurance Corporation.

13. Acceptable Collateral

Securities collateralizing bank or savings and loan deposits must be rated "A" or higher.

14. Investments in Name of District

All investments purchased shall stand in the name of the District.

15. Reporting

The Controller shall submit a report of the District's investment portfolio and security transactions to the Board of Directors by the second Friday of each calendar month in accordance with Government Code Sections 53607 and 53646. Such reports shall also be submitted to the General Manager, CFO and to the District's auditor.

16. Purchase of Securities

The Controller is authorized to purchase securities through the investment department of the District's bond trustees and fiscal agents and as otherwise permitted by the Government Code. Any account resolutions required by bank investment departments will be submitted to the Board of Directors for approval prior to any trading through that bank. The bank or other investment institution from which authorized securities are purchased shall be instructed in writing only to purchase securities in the name of the District and that all matured funds shall be returned to the District's commercial bank account. The bank shall also be instructed to send receipts for all transactions to the CFO and the District accounting department.

**Employing a Debt
Management Policy**
Practices Among
California Local Agencies

**Employing a Debt
Management Policy**
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CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

The California Debt and Investment Advisory Commission (CDIAC) provides information, education, and technical assistance on debt issuance and public fund investments to local public agencies and other public finance professionals. CDIAC was created to serve as the state's clearinghouse for public debt issuance information and to assist state and local agencies with the monitoring, issuance, and management of public debt.

COMMISSION MEMBERS

BILL LOCKYER
California State Treasurer and Chairman

EDMUND G. BROWN JR.
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City of San Leandro

JOSE CISNEROS
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City and County of San Francisco

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Additional information concerning this report or CDIAC programs may be obtained by contacting CDIAC directly via phone (916) 653-3269, fax (916) 654-7440, e-mail (cdiac@treasurer.ca.gov) or by visiting CDIAC's website: www.treasurer.ca.gov/cdiac.

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INTRODUCTION

Public agencies develop and apply debt management policies to ensure that debt is issued and managed prudently. This practice is advocated by the Government Finance Officers Association (GFOA) which published and subsequently updated best practice guidelines for debt management policies in 1995, 2003, and 2012.¹ These guidelines along with other GFOA publications recommend that a formal debt management policy, guiding debt issuance, should be a part of a public agency's debt administration.² The GFOA endorsed the use of a debt management policy to improve the quality of decisions, articulate policy goals, provide guidelines for the structure of debt issuance, and demonstrate a commitment to long-term capital and financial planning.

To assess the extent to which local public agencies in California have adopted GFOA's recommendations the California Debt and Investment Advisory Commission (CDIAC) compared the debt management policies adopted by a sample of local agencies against GFOA's best practice guidelines. Specifically, the study assessed the degree to which local agency debt management policies addressed DEBT LIMITS, DEBT STRUCTURING, DEBT ISSUANCE, and DEBT MANAGEMENT. Local agencies that embrace these best practices will be more likely to produce policies that can be understood, approved, and implemented by the local agency's staff, elected officials, and financial management, strengthening the consistency and credibility of the financial decisions made related to the debt management process.

This study reveals that the majority of the cities, counties, and school districts issuing debt between January 2001 and January 2012 have not adopted debt management policies. Based on a significant-

ly valid sampling of issuers, 61 percent of county issuers, 49 percent of city issuers, and 23 percent of school district issuers have adopted policies.

Furthermore, the study finds through a review of the contents of 84 individual debt management policies that county issuers more consistently complied with GFOA's best practice guidelines while school district issuers were the least likely to follow the guidelines. Although the findings of this portion of the review cannot be statistically projected on the practices of all city, county, and school district issuers, the study does offer an opportunity to consider the structure and content of GFOA's guidelines and to affirm their purpose and utility. In its analysis of debt policies, CDIAC realizes that the GFOA best practice guidelines do not universally apply to all types of issuers or all types of debt. But as a standard, these guidelines and GFOA's supporting publications provide any public agency a comprehensive and easy-to-use framework to develop a debt management policy. Public agencies that issue debt are more likely to protect the interests of the agency and the public if they give thought to the structure, use, and administration of a debt program in advance of entering the market.

BENEFITS OF A DEBT MANAGEMENT POLICY

A local agency's debt management policy can assist its debt managers to make decisions and support efforts to identify conflicts, inconsistencies, and gaps in a local agency's approach to project finance and debt management. A debt policy can also 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. Potential benefits of a formal debt policy include:

¹ Best Practices, Debt Management Policies, available at www.gfoa.org/index.php?option=com_content&task=view&id=1573

² The Government Finance Officers Association also published "Elements of a Comprehensive Local Government Debt Policy", Rowan Mirada, Ronald Picur, Doug Straley, *Government Finance Review* Vol. 13 Nbr. 5, (October 1997) and *A Guide for Preparing a Debt Policy*, Patricia Tighe, Government Finance Officers Association (Chicago, Illinois, 1998)

- Supporting financial decisions that are transparent and consistent.
- Establishing standard operating procedures to guide daily financial activities.
- Providing performance measures and limits based on predetermined levels and benchmarks.
- Providing justification for decisions.
- Providing an interface between capital planning, long term financing objectives, and daily operations.
- Focusing on the overall financial plan in contrast to individual issues.
- Proactively safeguarding public agencies from making unsuitable debt related decisions.
- Providing consistency and instruction to new and transitioning staff.
- Establishing an effective management mechanism for post-issuance compliance.

Lacking a formal set of well-understood and well-communicated policies, issuers may run into problems in both the issuance and administration of debt. In the absence of policies, issuers may fail to control the type, structure, and maturity of debt being issued. They may enter into service contracts that are not well understood and potentially harmful. And they may fail to meet federal disclosure and tax compliance obligations.

Failures such as these may result in adverse outcomes for public agencies. To the extent that a lack of policies leads to the injudicious use of debt, poorly structured debt or repayment schedules, or the failure to meet disclosure or tax obligations, the issuer may be penalized by regulators, downgraded by ratings agencies or, at minimum, lose investor and taxpayer confidence. Equally painful are the implications of a poor-

ly managed debt portfolio to the agency's fiscal conditions, including cash shortfalls, missed debt service payments, or the inability to call or refund debt to take advantage of changing market conditions. Well-constructed and well-communicated policies protect the interests of the public as well as the public servants who, acting in good faith, seek to meet the needs of their constituents.

STUDY METHODS

Sampling

In assessing the application of GFOA's best practices guidelines for debt management policies, CDIAC reviewed policies adopted by cities, counties, and school districts in California that issued debt during the ten-year period between January 2002 and January 2012. Fifty (50) counties, 310 cities, and 666 school districts issued debt during this period. From this population of issuers, CDIAC randomly selected 230 issuers to study, including 33 counties, 73 cities, and 124 school districts, to produce a statistically significant sample.³ This sampling method enables the results to be projected on the population of all city, county, and school district issuers selling debt during the study period.

Data Collection

CDIAC sought to obtain the most current version of debt management policies adopted by the cities, counties, and school districts composing the sample set. This often entailed a two-step process. First, staff visited each local agency's website to find the agency's debt policy. If the agency had not posted a document identified as a debt policy to their website, staff contacted the agency directly to obtain a copy. As a result, the analysis conducted here was based only on documents identified by the agencies themselves as their debt policies.

³ The sample produced a confidence level of 95 percent with a margin of error of plus or minus 10 percent. This means that 95 out of 100 times the sample CDIAC selected from all issuers will fall within a confidence interval of plus or minus 10 percent.

Figure 1**DEBT MANAGEMENT POLICIES SAMPLED
BY TYPE OF ENTITY**

AGENCY TYPE	SAMPLE SIZE	POLICIES COLLECTED	% OF POLICIES COLLECTED
Cities	73	36	49.3
Counties	33	20	60.6
School Districts	124	28	22.6

Of the 230 issuers in the sample, CDIAC obtained policies from 36 cities, 20 counties, and 28 school districts (Figure 1).

Evaluating the Content of Local Agency Debt Policies: Scoring Design and Scoring Procedures

The GFOA's best practice guidelines for debt management policies contain four (4) categories of information. The categories address specific content with respect to the agency's policy for: DEBT LIMITS, STRUCTURING, ISSUANCE AND MANAGEMENT (Figure 2). Within the best practice categories, the GFOA identifies a list of 30 elements that further detail the content that should appear in an agency's debt management policy. To assess the compliance of cities, counties, and school districts in California with GFOA's best practices for debt management policies, CDIAC tested the sample set of debt policies against these 30 elements. In addition, staff also determined if each policy was dated and approved by an oversight body.

Scoring of each debt management policy was carried out using a standardized score sheet (Appendix 1). CDIAC staff divided the 84 sample policies between two teams composed of two research staff each. Staff scored each debt policy against the GFOA recommended elements using the standardized score sheet. Staff assigned one point to each element that appeared in the policy.⁴ If the policy did not address the element, it received a zero. In this way, a debt policy received

between 0 to 30 total points depending on the number of elements considered by the policy.

Since debt management policies are text-based, they are subject to differing interpretations. To control for this, the scoring of each policy was internally and externally validated. Scorers reviewed a set of policies and then exchanged the policies with another scorer to validate the initial scores. Next, each policy was exchanged with another team of two scorers to be validated independently by each of these scorers. After each step, differences were reconciled within the team and then between the two teams through consultation. In the event a debt policy element was scored differently, a consensus opinion was made on the final score based on a joint review and agreement between all team members. After the review and reconciliation process was completed, each scorer's score sheet was input into an Excel spreadsheet. This was then reviewed by another staff member – one not participating in the scoring process – to check for accuracy and to identify any irregularities in the tabulation of scores.

STUDY RESULTS

Likelihood of City, County, or School District Issuers to Adopt Debt Management Policies

CDIAC found that compliance among cities, counties, and school district issuers to GFOA's best practice guidelines for debt management policies

⁴ Scoring was based on the presence or absence of an element and not on the depth or breath of the discussion.

Figure 2

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

Figure 3

COMPLIANCE WITH GFOA BEST PRACTICE GUIDELINES
SCORE RESULTS BY TYPE OF ISSUER

DEBT POLICY SCORE	CITIES		COUNTIES		SCHOOL DISTRICTS	
	# OF POLICIES	% OF TOTAL WITHIN ISSUER GROUP	# OF POLICIES	% OF TOTAL WITHIN ISSUER GROUP	# OF POLICIES	% OF TOTAL WITHIN ISSUER GROUP
15 or more Elements Addressed in Policy	8	22.2	11	55.0	1	3.6
Less than 15 Elements Addressed in Policy	28	77.8	9	45.0	27	96.4
TOTAL	36		20		28	

is poor. County issuers are more likely to have adopted policies. Nearly 61 percent of county issuers have adopted policies. Forty-nine (49%) percent of city issuers have adopted policies while just 23 percent of school district issuers did.

Fifty-five (55%) percent of the county issuers that had adopted debt policies included at least half of the elements of a complete debt policy as recommended by the GFOA (Figure 3). Of the cities that had adopted policies, only 22 percent had incorporated more than 50 percent of the GFOA's recommended elements. School district issuers were the least likely of the three categories of issuers to adopt debt management policies, but even if they did, less than four (4%) percent addressed half of the GFOA elements.

Compliance with GFOA's Best Practice Guidelines by Categories

GFOA identifies four main categories of information to be included in a public agency's debt management policy. These include DEBT LIMITS, DEBT STRUCTURING, DEBT ISSUANCE, and DEBT MANAGEMENT. CDIAC used this framework to analyze 84 debt policies collected from cities, counties, and school districts. While the results of this analysis are not statistically significant and cannot be projected on the population of city, county, and school district issuers that have debt management policies, they do reveal something about the adherence of issuers to GFOA's best

practice recommendations. The following discussion addresses each category.

DEBT LIMITS

The GFOA guidelines provide for three sub-categories within the DEBT LIMITS category: Purpose of Issue, Legal Limitations, and Types of Debt and Criteria for Issuance. These sub-categories address the specific legal, policy, and financial parameters of each type of debt and are broken down into a total of 10 elements. Figure 4 reports on the compliance of city, county, and school district issuers to GFOA's recommended content for this category.

PURPOSE OF ISSUE. The majority of city, county, school district issuers included restrictions on the types of projects that could be financed as well as limits on the total amount that could be borrowed. These limits were often described in broad terms. Most policies restricted borrowing to capital-related projects with a useful life of at least five years (limited life equipment, computers, and vehicles) and prohibited debt financing to cover general operating expenses. In contrast to city and county policies, school district policies seldom addressed the sources of repayment of debt, the useful life of improvements financed with debt, or pay-as-you-go financing options.

POLICY LIMITATIONS. Legal/statutory limits dictated by state and local law, categories of acceptable uses by debt type, revenue flows to service

Figure 4

PERCENT OF DEBT MANAGEMENT POLICIES ADDRESSING DEBT LIMIT ELEMENTS, BY TYPE OF ISSUER

		THE ELEMENTS OF DEBT MANAGEMENT POLICIES	PERCENT OF REVIEWED POLICIES ADDRESSING ELEMENTS		
			CITY	COUNTY	SCHOOL DISTRICT
DEBT LIMITS	PURPOSE OF ISSUE	Restrictions and Uses	80.6	95.0	78.6
		Sources of Repayment	50.0	70.0	14.3
		Useful Life, Matching Asset life	86.1	80.0	32.1
		Pay Go, Integration with Capital Plan	52.8	70.0	3.6
	DEBT LIMITS	Legal/Statutory Limits	30.6	75.0	50.0
		Fiscal Condition, Ratios	47.2	70.0	3.6
		Debt Service Capacity	44.4	70.0	7.1
	TYPE AND CRITERIA	Short and Long Term	47.2	75.0	7.1
		Fixed and Variable	25.0	45.0	3.6
		Other Financing	41.7	90.0	21.4

the debt, and the agency's overall financial condition drive a local agency's policies with respect to the use of debt. Seventy-five (75%) percent of county policies reviewed mentioned the need to conform to state, local or other legal limitations based on the type of project or financing instrument used. Half of school district policies referenced their authority, but few of them addressed measures of fiscal condition or considered the agency's capacity to take on debt.

TYPES OF DEBT AND CRITERIA FOR ISSUANCE.

The determination to issue short- or long-term debt as a fixed or variable structure should be based on the agency's financial structure, expertise, and a careful cost/benefit analysis. When interest rates are low, variable rate debt normally constitutes a smaller role in a local agency's debt portfolio and vice versa when rates are high. As a matter of course, a local agency's debt management policy should prohibit the use of variable rate debt for arbitrage purposes. County issuers generally recognized these structural features in their policies while city and school district issuers were less likely to do so.

DEBT STRUCTURING

The GFOA guidelines recognize one subcategory under the DEBT STRUCTURING category, which should make reference to and discuss the structural aspects of each type of debt to be issued by the local agency (Figure 5). Structural characteristic to be considered should include maturity limitations, level debt service requirements, premium and discount structures, the use of credit enhancement, and facilities used to retire debt early. As stressed in the debt limits category above, GFOA recommends that local agencies include a reference to the types, levels, and structure of the debt financing. These would include the use of different maturities, call options, and derivative (swap) strategies based on market conditions. They should also reference the need to adequately match debt service payments to tax and fee revenues.

Debt structuring elements were the least commonly addressed elements of the policies reviewed. More than one-third of county policies included these elements whereas city policies frequently addressed maturity and the use of credit enhancement, but did not address call features or derivative products. Notably, more than 40

Figure 5

PERCENT OF DEBT MANAGEMENT POLICIES ADDRESSING DEBT STRUCTURE ELEMENTS, BY TYPE OF ISSUER

THE ELEMENTS OF DEBT MANAGEMENT POLICIES		PERCENT OF REVIEWED POLICIES ADDRESSING ELEMENTS		
		CITIES	COUNTIES	SCHOOL DISTRICTS
DEBT STRUCTURING	STRUCTURAL FEATURES			
	Call features	13.9	35.0	3.6
	Maturity	36.1	45.0	42.9
	Credit Enhancement	41.7	40.0	3.6
	Derivative Products	19.4	35.0	3.6

percent of school district policies recognized maturity limits. This was an artifact of the scoring methodology more than the content of school district issuer's debt management policies.⁵

DEBT ISSUANCE

The GFOA's DEBT ISSUANCE category provides recommendations on the method of sale, selection of the financing team, importance of a strong credit rating, and need and requirements for refunding existing debt (Figure 6).

CREDIT OBJECTIVES. The GFOA recommends setting minimum credit rating standards to be achieved along with developing relationships with ratings agencies through good communication and disclosure. Debt policies that declare the intent to routinely communicate with ratings agencies will be viewed favorably by ratings agencies. An issuer that establishes and implements a sound financial plan will reduce the probability of making decisions that will negatively impact credit ratings on existing and future debt. The greater majority of the county policies reviewed addressed credit ratings and relationships with credit rating agencies. The policies of school district issuers seldom addressed these two elements.

METHOD OF SALE. The GFOA recommends that the decision to sell through a negotiated or competitive offering should be based on market conditions at the time of issue with the goal of achieving the lowest cost of funds. Local agencies differ in their use of competitive and negotiated sales methods and for a variety of reasons. The GFOA believes that general obligation bonds or those with a strong repayment stream, an "A" or better rating, and without complicated features, should be sold competitively. However, many factors favor the use of a negotiated sale method, including placing a large volume of bonds at a set price. With respect to method of sale, the city, county and school district policies reviewed did address the type of sale, but less frequently addressed the other elements including the use of private placements or direct loans. None of the policies reviewed addressed the use of premiums, either with respect to the acceptability of a premium or the purposes to which a premium may be applied.

SELECTING A FINANCING TEAM. Local agency debt issuance requires the assistance of a team of financing professionals to successfully complete the financing. The team may include an underwriter, financial advisor, bond and disclosure counsel, trustee, and other consultants. The

⁵ The debt management policies of school district issuers commonly referenced only their statutory authority. Since these code sections state the legal term on bonds, scorers gave these policies credit for addressing maturity in their policies.

Figure 6

PERCENT OF DEBT MANAGEMENT POLICIES ADDRESSING
DEBT ISSUANCE ELEMENTS, BY TYPE OF ISSUER

		THE ELEMENTS OF A DEBT MANAGEMENT POLICIES	PERCENT OF REVIEWED POLICIES ADDRESSING ELEMENTS		
			CITY	COUNTY	SCHOOL DISTRICT
DEBT ISSUANCE	CREDIT OBJECTIVES	Ratings	50.0	70.0	7.1
		Relationships with Credit Raters	38.9	60.0	3.6
	METHOD OF SALE	Competitive vs. Negotiated	50.0	45.0	25.0
		Direct Loans	2.8	10.0	0.0
		Private Placements	11.1	30.0	3.6
		Premium Structures	0.0	0.0	0.0
	SELECTION OF PROFESSIONAL	Request for Proposal (RFP)	22.2	20.0	7.1
		Contract Evaluation and Terms	13.9	20.0	3.6
		Conflict of Interest	11.1	25.0	7.1
	REFUNDINGS	Reasons for Refunding	44.4	75.0	10.7

GFOA suggests that the method of selection and the local agency's relationship with the financing team is crucial to the success of the sale. Furthermore, GFOA recommends that professionals be hired through a competitive RFP process. Consistent with these recommendations, GFOA's best practices for debt policies identify three related elements: Did the debt policy address the use of an RFP process in hiring the finance team? Did the policy address guidelines for contract evaluation of hired professionals? and, Did the policy address conflicts of interest among members of the financing team? Approximately one-fifth of the county policies reviewed addressed the selection of financing professionals.

REFUNDING OF DEBT. When advantageous, public agencies should consider refunding or restructuring outstanding debt to achieve debt service savings or achieve other financial benefits. The financial analysis determining the cost effectiveness of the refunding should be undertaken with a target savings goal to be achieved, expressed as a percentage of the principal outstanding. In some cases, concerns with financial flexibility and risk – refunding variable rate debt, terminating an interest rate swap, refinancing short term debt – should be evaluated in determining benefits other than purely quantitative factors derived from a refunding. Any savings from current or advance refunding must be made in accordance with legal and tax considerations. Three-quarters of the county policies reviewed included a section on refunding.

DEBT MANAGEMENT

The GFOA DEBT MANAGEMENT category provides recommendations on initial and continuing disclosure along with the investment of bond proceeds (Figure 7).

DISCLOSURE. Once debt is issued, local agencies are required by the Securities Exchange Commission’s Rule 15c2-12 to make ongoing disclosures to investors. The Municipal Securities Rulemaking Board’s (MSRB) Electronic Municipal Market Access (EMMA) system provides issuers an easy way to do so. These disclosures include annual financial reports and any “material events” that may occur during the life of the outstanding bonds. The GFOA best practices recommend that the public agency’s finance staff become knowledgeable about its continuing disclosure requirements to ensure the accurate and timely submission of this information. At the same time, public agencies that have issued debt must maintain their communications with stakeholders, continue to account for funds, properly invest bond proceeds, and monitor compliance with federal tax-exempt bond regulations. The policies that discussed disclosure did so in general terms often merely stating their obligations to submit information to EMMA

and maintain an open channel of communication with the MSRB and other stakeholders. Among the school district policies reviewed however, there was little information provided on the process and roles responsible for making market disclosures.

INVESTMENT OF BOND PROCEEDS. Any investment of bond proceeds by the local agency must conform to California law governing the investment of public funds and with the bond covenants executed by the agency. Furthermore, the local agency must comply with federal arbitrage restrictions. Failure to do so may lead to the forfeiture of the tax-exempt status on the debt. In addition to maintaining written procedures with regard to tax compliance, the local agency should maintain an appropriate system of accounting to calculate bond investment arbitrage earnings in accordance with the Tax Reform Act of 1986 and United States Treasury regulations. Arbitrage requirements and compliance with federal tax laws on the investment of bond proceeds was mentioned in half of the county policies reviewed. City issuers addressed arbitrage, but less frequently addressed compliance with tax law or made mention of the city’s investment policies. Among the school district policies reviewed, issuers seldom mentioned either of these topics.

Figure 7

PERCENT OF DEBT MANAGEMENT POLICIES ADDRESSING DEBT MANAGEMENT ELEMENTS, BY TYPE OF ISSUER

		THE ELEMENTS OF A DEBT MANAGEMENT POLICIES	PERCENT OF REVIEWED POLICIES ADDRESSING ELEMENTS		
			CITY	COUNTY	SCHOOL DISTRICT
DEBT MANAGEMENT	DISCLOSURE	15c2-12 Requirements	19.4	55.0	3.6
		Initial and Continuing	41.7	65.0	10.7
		Obligated Person to Communicate	16.7	55.0	3.6
	INVESTMENT OF PROCEEDS	Compliance with Federal Tax Law	13.9	55.0	7.1
		Arbitrage Requirements	44.4	50.0	10.7
		Direct to Investment Policy	5.6	15.0	3.6

Review and Approval Practices

In addition to the elements associated with the GFOA best practices, CDIAC analyzed how the city, county, and school district policies were presented. Policies were either “stand-alone” documents or they were published as a section within a more comprehensive finance policy. CDIAC also identified several policies that made exclusive reference to statutes but failed to provide additional discussion even of the meaning of the statute. Three (3) city policies, one county policy, and two school district policies cited only the statutes pertaining to debt.⁶

CDIAC also examined the city, county, school district policies to determine if they were being approved and updated on a scheduled basis. Establishing a process for approving and updating a debt management policy suggests that the agency recognizes the role the policy plays in managing its financial and organizational affairs. The policies were also inspected to determine if they were dated and if they included a process for approving and updating the policy.

Counties and school districts policies were likely to publish their debt management policies as stand-alone documents (Figure 8). Less than 30 percent of cities did so. Seventy-two (72%) percent of the city policies reviewed included their debt management policies within another document, typically in a more comprehensive finance or accounting administration plan. The fact that counties often published debt management policies as an independent document may play into why these policies were more often consistent with GFOA’s best practice guidelines and, therefore, received higher scores in CDIAC’s review. The policies of the vast majority of school districts were one-page documents describing the Education Code section that authorizes the issuance of debt by school districts. These policies were the least compliant with the recommended GFOA best practices.

The majority of city, county, and school district policies were dated. However, few of them provided a mechanism for updating the policy. More than 60 percent of city and county policies reviewed recognized a process for approving the policy while only 43 percent school districts policies did so.

FINAL DISCUSSION

With the wealth of debt policy guidance provided by the GFOA, the importance of a debt policy to ratings agencies, the need for compliance with MSRB disclosure practices, and the obligation of local agencies to issue debt at the lowest cost to tax and ratepayers – *a debt management policy should be an essential component of a local agency’s debt program*. The GFOA’s best practice guidelines and supporting publications on debt management policies have provided a comprehensive framework for public agencies. While the GFOA has done most of the “heavy lifting”, too few public agencies in California have adopted debt management policies. Based on this statistically valid sampling, the study demonstrates that 49 percent of city and 61 percent of county issuers have adopted debt management policies. Even though school districts are the highest volume issuers of debt in the state, only 23 percent of them have adopted a debt management policy.

CDIAC’s content review of local agency debt policies, although not statistically representative of all of the debt policies of cities, counties, and school districts that have issued debt between 2002 and 2012, revealed that adherence to GFOA’s content recommendations varied substantially. School district policies were the least compliant with GFOA’s best practice guidelines. Even though it may be true that each of the 30 elements in GFOA’s guidelines may not apply to all types of issuers or types of

⁶ If the referenced statute addressed the element regardless of whether the policy provided additional discussion it was scored as having addressed the element.

Figure 8

PROVISIONS FOR APPROVAL AND UPDATE, BY TYPE OF LOCAL AGENCY

	PERCENT OF CITY POLICIES	PERCENT OF COUNTY POLICIES	PERCENT OF SCHOOL DISTRICT POLICIES
Policy was a stand-alone document	27.7	80.0	89.2
Policy was a section in another plan	72.2	20.0	10.7
Policy was dated	72.2	80.0	89.3
Policy provides for updates	16.7	35.0	7.1
Policy identified an approval process	61.1	65.0	42.9

debt, the failure of cities, counties, and school districts to embrace GFOA's best practice guidelines raises some significant questions about the strategic thinking these issuers are giving to the use of debt and the guidance policy makers within these agencies are providing to their staff and constituents regarding debt financing. CDIAC encourages local agencies to develop debt management policies that conform to GFOA's guidelines even if issuers merely recognize in their policies that particular elements do not apply to their debt programs. Furthermore, CDIAC recommends that public agencies undertake a process to update and approve their debt management policies as needed.

As an end note, the study did find some exemplary debt management policies that conform to the spirit of the GFOA's best practices. The City of Fresno, the County of Butte, and the Los Angeles Unified School District can serve as ex-

amples for other local agencies seeking to employ the GFOA best practices. Appendix 2 references these policies and the location within each policy of GFOA's best practice guideline elements.

Appendix 2 also provides other resources that may help issuers understand the need for including and addressing each of the 30 GFOA elements within their debt management policies.

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Appendix 1

STANDARDIZED SCORE SHEET

NAME OF ORGANIZATION	TYPE	REVIEWER

SECTION	CONTENT	Y=1	PAGE #(S)
Purpose for which debt may be issued.	Restrictions and Uses		
	Sources of Repayment		
	Useful Life (Matching Asset Life)		
	PayGo, Timing, Integration with CapPlan		
Legal debt limitations, or limitations established by state, local policy.	Legal/Statutory Limits		
	Fiscal Condition, Ratios		
	Debt Service Capacity		
Types of debt permitted to be issued and criteria for issuance.	Short and Long Term		
	Fixed and Variable		
	Other Financing		
Structural features considered.	Call Features		
	Maturity		
	Credit Enhancement		
	Derivative Products		
Credit objectives.	Ratings		
	Relationships with Credit Raters		
Method of sale.	Competitive vs. Negotiated		
	Direct Loans		
	Private Placements		
	Premium Structures		
Selection of external financial professionals.	RFP		
	Contract Evaluation and Terms		
	Conflict of Interest		
Refunding of debt.	Reasons for Refunding		
Disclosure (primary and secondary market).	15c2-12 Requirements		
	Initial and Continuing		
	Obligated Person to Communicate		
Investment of bond proceeds.	Compliance with Federal Tax Law Provisions		
	Arbitrage Requirements		
	Direct to Investment Policy		
TOTAL			
FORMAT	Included as Stand-Alone		
	Included as a Section in Other Plan		
	Included as Reference to Other Policy		

NOTES

REVIEWER 1
REVIEWER 2

Appendix 2

EXAMPLES OF CITY, COUNTY, SCHOOL DISTRICT POLICIES THAT COMPLY WITH GFOA BEST PRACTICE GUIDELINES

ELEMENT	CITY OF FRESNO		BUTTE COUNTY		LOS ANGELES UNIFIED SCHOOL DISTRICT		GFOA AND CDIAC DEBT MANAGEMENT RESOURCES
	INCLUDED	PAGE #	INCLUDED	PAGE #	INCLUDED	PAGE #	
Restrictions and Uses	✓	9	✓	9,10	✓	5	
Sources of Repayment	✓	9	✓	7	✓	6	
Useful Life	✓	14-15	✓	8	✓	6	
PayGo, Timing, CapPlan	✓	12,15	✓	7,8	✓	6,7	
Legal/Statutory Limits	✓	12,7	✓	1,5,11	✓	7,10	http://www.treasurer.ca.gov/cdiac/debtpubs/primer.pdf
Fiscal Condition, Ratios	✓	13	✓	6	✓	10,11,13	
Debt Service Capacity	✓	13	✓	6,9	✓	12	
Short and Long term	✓	15	✓	11,10,17	✓	5	
Fixed and Variable	✓	11,24	✓	21	✓	11	Using Variable Rate Debt Instruments (1997 and 2010) , revised
Other Financing	✓	14	✓	12,13	✓	14	
Call features	✓	25	✓	23	✓	9	Selecting and Managing the Method of Sale of State and Local Government Bonds (1994 and 2007)
Maturity	✓	10	✓	20	✓	8	
Credit Enhancement	✓	26	✓	22	✓	9	http://www.treasurer.ca.gov/cdiac/debtpubs/2003/062003bondins.pdf
Derivative Products	✓	17	✓	25	✓	9	Use of Debt-Related Derivatives Products and the Development of a Derivatives Policy (1995, 2003, 2005 and 2010) revised
Ratings	✓	8	✓	22	✓	15	Maintaining an Investor Relations Program (1996, 2003 and 2010)
Relationships with Ratings Agencies	✓	8	✓	22	✓	2,15	
Competitive vs. Negotiated	✓	23	✓	17	✓	9	Pricing Bonds in a Negotiated Sale (1996, 2000, and 2010)
Direct Loans	○	-	✓	17	○	-	
Private placements	✓	23	✓	17	✓	9	
Premium structures	○	-	○	-	○	-	
Request for Proposal (RFP)	✓	20	○	-	✓	17	http://www.treasurer.ca.gov/cdiac/issuebriefs/101994.pdf
Contract Evaluation and Terms	✓	20-21	✓	18	✓	17	Selecting Financial Advisors (2008)
Conflict of Interest	○	-	✓	18,32	✓	19	Selecting Underwriters for Negotiated Bond Sales (2008)
Reasons for Refunding	✓	24,25	✓	24	✓	16	Analyzing and Issuing Refunding Bonds (1995 and 2010)
15c2-12 Requirements	✓	22	✓	17,27,28	✓	14,15	Understanding Your Continuing Disclosure Responsibilities (2010)
Disclosure Initial and Continuing	✓	22	✓	18,27	✓	14,16	
Obligated Person to Communicate	✓	22	✓	18,27,28	✓	17	Maintaining an Investor Relations Program (1996, 2003 and 2010)
Compliance with Federal Tax Law	✓	25	✓	23,29	✓	16	
Arbitrage Requirements	✓	25	✓	23,29	✓	16	Investment of Bond Proceeds (1996 and 2007)
Direct to Investment Policy	✓	25	✓	23	✓	16	



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