



YESTERDAY, TOMORROW AND FINANCE

2020 CSMFO ANNUAL CONFERENCE

JANUARY 28-31, 2020

DISNEYLAND CA



NAVIGATING THE RAGING RIVERS OF DEBT MANAGEMENT





SPEAKER
PRESENTATION

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Navigating the Raging Rivers of Debt Management

Presenters

Nora O'Brien, Anna Sarabian and Gina Tharani

January 30, 2020

10:15 AM - 11:30 AM





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- I. Introduction
- II. Legal Considerations
- III. Development of Policies and Procedures
- IV. Implementation



I. Introduction

The Push For Debt Policies

- ❖ Government Finance Officers Association (GFOA)
 - ❖ Municipal Securities Rulemaking Board (MSRB)
 - ❖ Rating Agencies
 - ❖ California Debt and Investment Advisory Commission (CDIAC)
 - ❖ Securities and Exchange Commission (SEC)
 - ❖ Internal Revenue Service (IRS)
-
- ▶ The public expects prudent, transparent use of these resources
 - ▶ Policies and procedures should assist an issuer in complying with all relevant requirements
 - ▶ Development of debt policies and procedures is an opportunity to adopt best practices and make them work

Debt Management Policies

- ▶ Inform and improve quality of decisions by officials
- ▶ Tailored to the issuer's specific needs and available financing options
- ▶ Provide credibility, understanding of issuer's approach to debt financing
- ▶ Typically adopted by the governing body
- ▶ 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

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II. Legal Considerations

Legal Considerations

1. State Requirements
2. Federal Securities Law
3. Federal Tax Law

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1. State Requirements

Senate Bill 1029

- ▶ Requires a certification to CDIAC that issuer has adopted local debt policies and the proposed debt issuance is consistent with local debt policies
- ▶ Government Code § 8855(i) contains requirements for local debt policy
- ▶ Government Code § 8855(k) requires submittal of annual report

SB 1029 Debt Policy Requirements

- ▶ Government Code § 8855(i) requires the following:
 - A. The purposes for which the debt proceeds may be used
 - B. The types of debt that may be issued
 - C. The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable
 - D. Policy goals related to the issuer's planning goals and objectives
 - E. The 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

SB 1029 Annual Report Requirements

- ▶ Government Code § 8855(k) requires submittal of an annual report for a debt issue consisting of the following:
 - A. Debt authorized during the reporting period, including:
 - (i) Debt authorized at the beginning of the reporting period
 - (ii) Debt authorized and issued during the reporting period
 - (iii) Debt authorized but not issued at the end of the reporting period
 - (iv) Debt authority that has lapsed during the reporting period
 - B. Debt outstanding during the reporting period, including:
 - (i) Principal balance at the beginning of the reporting period
 - (ii) Principal paid during the reporting period
 - (iii) Principal outstanding at the end of the reporting period
 - C. The use of proceeds of issued debt during the reporting period, including:
 - (i) Debt proceeds available at the beginning of the reporting period
 - (ii) Proceeds spent during the reporting period and the purposes for which they were spent
 - (iii) Debt proceeds remaining at the end of the reporting period

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2. Federal Securities Law

Amendments to SEC Rule 15c2-12

- ▶ Events incorporated into paragraph (b)(5)(i)(C) of Rule 15c2-12 as paragraphs (15) and (16):
 - (15) Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material
 - (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties

Amendments to SEC Rule 15c2-12 (continued)

The term financial obligation means a:

- (A) Debt obligation;
- (B) Derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or
- (C) Guarantee of (A) or (B)

The term financial obligation does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with this Rule 15c2-12

3. Federal Tax Law

Federal Tax Law

- ▶ Form 8038 Series Information Return
- ▶ Qualified Use of Proceeds and Financed Property
- ▶ Arbitrage Yield Restriction and Rebate

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III. Development of Policies and Procedures

Development of Policies and Procedures

1. General Considerations
2. Developing SB 1029 Compliant Policies
3. Post-Issuance Compliance Considerations



1. General Considerations

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 limits
 - ▶ Debt structuring
 - ▶ Debt issuance
 - ▶ Debt management
 - ▶ Post-issuance compliance
 - ▶ How many of you have debt policies in place but have no outstanding debt?
 - ▶ When is it the right time to have a debt policy?

Debt Policy Objectives

- ▶ Maintain the City's sound financial position by ensuring the debt capacity is adequately considered and minimizing the City's interest payments and issuance costs
- ▶ Protect the City's creditworthiness and achieve the highest practical credit ratings, when applicable
- ▶ Provide complete financial disclosure and reporting
- ▶ Ensure the City's debt is consistent with the City's planning goals and objectives and capital improvement program and/or budget, as applicable
- ▶ Ensure the City is in compliance with all relevant State and federal securities laws and other applicable laws and regulations



2. Developing SB 1029 Compliant Policies

SB 1029 Requirements

A. Purpose for Debt and Use

- ▶ Purpose for debt (long term, short term, financing on behalf of other entities)
- ▶ Purpose for which debt proceeds may be used

B. Types of Debt

- ▶ Debt specifically authorized by statute or other authorization
- ▶ Method of sale (competitive, negotiated, private placements)
- ▶ Factors in structuring each debt issuance

C. Relationship of Debt and Integration with Capital Improvement Program

- ▶ Capital Plan
- ▶ Budget

SB 1029 Requirements (continued)

D. Policy Goals Related to Planning Goals and Objectives

- ▶ Facilities financed with debt are consistent with purpose of issuer and further that purpose
- ▶ Policy goals for debt

E. Internal Control Procedures

- ▶ Designate responsible officer(s) and/or department(s)
- ▶ Establish written procedures
- ▶ Monitor funds and accounts



3. Post-Issuance Compliance Considerations

Designing a Comprehensive Policy

- ▶ Internal controls
- ▶ Filing of annual report and material event notices
- ▶ Compliance and continuing disclosure obligations
- ▶ Arbitrage and rebate compliance
- ▶ Monitor uses of bond proceeds
- ▶ Establish written procedures for bond administration processes
- ▶ Confirm compliance with tax certificate covenants for debt
- ▶ GFOA best practices

SB 1029 Annual Report

- ▶ An issuer must submit an annual debt transparency report for any issue of debt for which they have submitted and report of final sale on or after January 21, 2017
- ▶ Covers a reporting period of July 1 to June 30 and is submitted no later than January 30 of each year
- ▶ Annual report shall include:
 - ▶ Debt authorized during the reporting period
 - ▶ Debt outstanding during the reporting period
 - ▶ The use of proceeds of issued debt during the reporting period

IV. Implementation

Practical Steps

- ▶ Compliance date for policy
- ▶ Debt issued prior to policy
- ▶ Compliance checklists
- ▶ Training



Contact Information

Gina Tharani, CCMT
Director of Financial Services/City Treasurer
City of Aliso Viejo
12 Journey, Suite 100
Aliso Viejo, CA 92656
T: 949-425-2520
GTharani@AVCity.org

Nora O'Brien, Esq.
Best Best & Krieger LLP
655 West Broadway, 15th Floor
San Diego, CA 92101
T: 619-525-1357
nora.obrien@bbklaw.com

Anna V. Sarabian, Principal
Fieldman, Rolapp & Associates, Inc.
19900 MacArthur Blvd, Suite 1100
Irvine, CA 92612
T: 949-660-7308
asarabian@fieldman.com