



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: October 31, 2007

REPORT NO: 07-172

ATTENTION: Council President and City Council
Docket of November 6, 2007

SUBJECT: Debt Policy

REFERENCE:

1. Special District Formation and Financing Policy Report to City Council (Companion Item).
2. Debt Policy Memorandum to Budget and Finance Committee, September 18, 2007.
3. Debt Policy Memorandum to Councilmember Donna Frye, September 18, 2007.
4. Budget and Finance Committee Actions, Meeting of July 25, 2007.
5. Budget and Finance Committee Actions, Meeting of September 26, 2007.
6. Independent Budget Analyst Report No. 07-70, July 5, 2007.
7. Independent Budget Analyst Report No. 07-92, September 21, 2007.

REQUESTED ACTION:

Review and adopt the Debt Policy to establish guidelines for the City's debt issuance and administration process.

STAFF RECOMMENDATION:

Approve the requested action.

SUMMARY:

The Chief Financial Officer and the Debt Management Department have developed a formal Debt Policy that documents the City's procedures and goals for the use of debt instruments to finance City needs. Credit rating agencies and the investment community look favorably upon formal debt policies as evidence of prudent and sound fiscal management, and as a reflection of a commitment to long-term financial planning. Regularly updated debt policy is an important tool that supports the use of the City's resources to meet its financial commitments and to maintain sound financial management practices.

As stated in the Government Finance Officers Association ("GFOA") recommended practices, debt management policies are written guidelines and restrictions that affect the amount and type

of debt issued by a local government, the issuance process, and the management of a debt portfolio. Consistent with the GFOA recommended practices, and with examples of debt policies of other comparable municipalities and rating agency guidelines, the Debt Policy primarily establishes guidelines pertaining to debt instruments/securities issued by the City in public or private bond markets.

The Debt Policy establishes guidelines to address the following: purpose and need for financing; creditworthiness objectives; types of debt; affordability targets; structure and term of City indebtedness; method of issuance and sale; financing team role and selection process; refunding considerations; and post issuance administration. It also introduces the concept of variable rate debt and derivatives, outlining some broad guidelines associated with this option. Six appendices are also included in the Policy; these appendices include specific policies on sub-topics in the financing area and/or provide supplementary information to the Debt Policy. The appendices include: the Special Districts Formation and Financing Policy, Council Policy 100-12 – Industrial Development Bond Program, the San Diego Housing Commission Policy on Multifamily Mortgage Revenue Bond Program, basic legal documents for bond issuances, the City's Disclosure Practices Working Group's Controls and Procedures, and a glossary of terms.

The Policy was developed with assistance from City Attorney's Office, the Disclosure Practices Working Group, and Montague DeRose & Associates, an independent financial advisory firm, which has significant experience in debt finance and has worked with various municipalities.

The Policy was presented to the Budget and Finance Committee (the "Committee") on June 6, 2007, and was discussed in further detail at the Committee meeting of July 25, 2007. A revised policy, incorporating the Committee's input from the meeting of July 25, 2007, was presented to the Committee on September 26, 2007. The Committee's adopted action was to recommend the Debt Policy to the City Council.

The Policy (Attachment 1) has been revised to incorporate changes/additions recommended by the Committee and the Office of the Independent Budget Analyst. In accordance with Committee direction, a Variable Rate and Derivative Options policy will be developed and brought forward for consideration by the Committee and City Council, and on approval will be included as an appendix to the Debt Policy. Further, a policy for the Redevelopment Agency debt issuances will also be developed and brought forward at a future date for consideration by the Committee and the Redevelopment Agency by the Agency staff.

FISCAL CONSIDERATIONS:

None specific to this action.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

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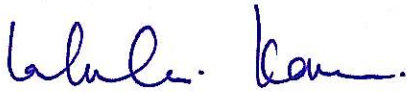
September 26, 2007. On September 26, 2007, the Committee's adopted action was to recommend the Debt Policy to the City Council.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

There were no community participation or outreach efforts.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Credit rating agencies and the investment community look favorably upon formal debt policies as evidence of prudent and sound fiscal management, and as a reflection of a commitment to long-term financial planning. City staff involved in the preparation and administration, and City Council involved in the approval of bond financings, would be able to rely on the guidelines established in the Debt Policy.



Lakshmi Kommi
Debt Management Director



Jay M. Goldstone
Chief Operating Officer

Attachment:

1. Debt Policy

Note: Due to the size of the attachment(s), the distribution will be limited to the City Council Docket binders. A copy is available for review in the Office of the City Clerk.