# DEBT ISSUANCE AND MANAGEMENT

The Board of Trustees recognizes that the foundation of a well-managed debt program is a comprehensive debt policy that guides the issuance of debt, management of the debt portfolio, and adherence to relevant laws and regulations.

As such, the Board of Trustees is committed to long-term capital and financial planning and recognizes that the issuance of debt is a key source for funding the improvement and maintenance of school facilities and managing cash flow.

## DEBT ISSUANCE GOALS

The District's debt issuance activities and procedures shall be aligned with the District's vision and goals for providing adequate facilities and programs that support student learning and well-being. When issuing debt, the district shall pursue the following goals:

1. Maintain accountability for the fiscal health of the District, including prudent management and transparency of the District's financing programs.
2. Attain the best possible credit rating for each debt issue in order to reduce interest costs, within the context of preserving financial flexibility and meeting capital funding requirements.
3. Take all practical precautions and proactive measures to avoid any financial decision that will negatively impact current credit ratings on existing or future debt issues.
4. Maintain effective communication with rating agencies and, as appropriate, credit enhancers such as bond insurers or other providers of credit or liquidity instruments.
5. Monitor the District's statutory debt limit in relation to assessed valuation within the District and the tax burden needed to meet long-term debt service requirements.
6. When determining the timing of debt issuance, consider market conditions, cash flows associated with repayment, and the District's ability to expend the obtained funds in a timely, efficient, and economical manner consistent with federal tax laws.
7. Determine the amortization (maturity) schedule which will fit best within the overall debt structure of the District at the time the new debt is issued.
8. Consider the useful lives of assets funded by the debt issue, as well as repair and replacement costs of those assets to be incurred in the future.
9. Preserve the availability of the District's general fund for operating purposes and other purposes that cannot be funded by the issuance of voter-approved debt.
10. Meet the ongoing obligations and accountability requirements associated with the issuance and management of debt under state and federal tax and securities laws

## AUTHORITY AND PURPOSES OF THE DEBT

The laws of the State of California authorize the issuance of debt by the District, and confer upon it the power and authority to make lease payments, contract debt, borrow money, and issue bonds for public improvement projects and to provide for the District’s operational cash flows in order to maintain a steady and even cash flow balance. Under these provisions, the District may issue debt to (i) pay for the cost of capital improvements, including acquiring, constructing, reconstructing, rehabilitating, replacing, improving, extending, enlarging, equipping, and/or maintaining such capital improvements; (ii) refund existing debt; or (iii) provide for cash flow needs. Such debt issuance may also include appropriate and authorized issuance costs.

**TYPES OF DEBT AUTHORIZED**

A. Short-Term Debt

The District's general objective is to manage its cash position in a manner so that its generated cash flow is sufficient to meet expenditures. As such, the District may issue short-term debt, which may include tax and revenue anticipation notes ("TRANS"), when such instruments allow the District to meet its cash flow requirements. The District will base the amount of the short-term operating debt on cash flow projections for the fiscal year and will comply with applicable federal and state regulations. The District will pledge operating revenues to repay the short-term debt in one year or less. The District will minimize the cost of the short-term borrowing to the greatest extent possible. As allowed by Education Code Section 42603, the District should first consider using interfund transfers before pursuing external borrowing.

B. Long-Term Debt

Debt may be used to finance capital facilities, projects, and equipment where it is appropriate to spread the cost of the projects over more than one budget year. In doing so, the District recognizes that future taxpayers who will benefit from the investment will pay a share of its cost. The District may issue long-term debt which includes, but is not limited to:

1. General obligation ("GO") bonds for projects approved by voters (California Constitution, Article 13A, Section 1; Education Code 15100-15262, 15264-15276; Government Code 53506-53509.5)
2. Special tax bonds issued pursuant to the Mello-Roos Community Facilities Act of 1982 (Government Code 53311-53368.3)
3. Lease financing of real property, including lease revenue bonds (LRBs) and certificates of participation (COPs): Financing leases for facilities are appropriate for facilities for which there is insufficient time to obtain voter approval or in instances where obtaining voter approval is either not feasible or unavailable (Education Code 17400-17429). If and when voter approved debt or special tax debt proceeds become subsequently available, the District will consider using such proceeds to refund, redeem, or pay the lease financing, where feasible, in order to alleviate the burden to the General Fund.
4. Use of other financing structures: The District may use other financing structures permitted by federal or state law, such as tax credit obligations or other obligations that provide a subsidized interest payment, i.e. Qualified School Construction Bonds (QSCBs) upon consideration of financing costs versus tax-exempt GO Bonds, lease revenue bonds and/or COPs or that are a method to finance a program in a manner not otherwise available when the use of such programs or structures is determined to result in sufficiently lower financing costs.

COPs, TRANs, lease revenue bonds, or any other non-voter approved debt instrument shall not be issued by the District in any fiscal year in which the district has a qualified or negative certification, unless the County Superintendent of Schools determines, pursuant to criteria established by the Superintendent of Public Instruction, that the District's repayment of that indebtedness is probable. (Education Code 42133)

The Superintendent or designee shall recommend to the Board potential financing method(s) that result in the highest benefit to the district.

**RELATIONSHIP OF DEBT TO DISTRICT FACILITIES PROGRAM AND BUDGET**

A. Impact on Operating Budget and District Debt Burden: In evaluating financing options for capital projects, both short and long-term debt amortization will be evaluated when considering a debt issuance, along with the potential impact of debt service, and additional costs associated with new projects on the operating budget of the District. The cost of debt issued for major capital repairs or replacements may be judged against the potential cost of delaying such repairs and/or replacing such facilities.

B. Capital Improvement Program: The Associate Superintendent of Business Services has the responsibility for the planning and management of the District's capital improvement program subject to review and approval by the Board of Trustees. Staff will, as appropriate, supplement and revise any applicable Facilities Master Plan in keeping with the District's current needs for the acquisition, development and/or improvement of District's real estate and facilities. Such plans may include a summary of the estimated cost of each project, schedule, expected cash requirements, and annual appropriations, in order for the projects to be completed.

**ENGAGEMENT OF PROFESSIONALS**

The Superintendent or designee shall retain a financial advisor, municipal advisor, investment advisor, and other financial services professionals as needed to assist with the structuring of the debt issuance and to provide general advice on the District's debt management program, financing options, investments, and compliance with legal requirements. Contracts for services provided by such advisors may be for a single transaction or for multiple transactions, consistent with the contracting requirements in Education Code 17596 with special emphasis on competition, openness, clarity, and avoiding conflicts of interest.

**STRUCTURE OF DEBT ISSUES**

A. Maturity of Debt: The decision on the duration of a debt issue shall be made with considerations of the economic or useful life of the improvement or asset that the issue is financing. The District shall consider the overall impact of the current and future debt burden of the financing when determining the duration of the debt issue. The final maturity of GO Bonds issued pursuant to the Education Code will be limited to 25 years when such bonds are issued under the Education Code, unless such longer maturity is then permitted by the Education Code. GO Bond issues will generally be sized upon consideration of capital improvement expenditure requirements. Decisions concerning other types of debt shall take into consideration the useful life of the assets to be financed and/or the life and/or feasibility of the revenue dedicated to the repayment of such debt. Further, The final maturity of equipment or real property lease obligations will be limited to the useful life of the assets to be financed but, with respect to a lease purchase of equipment, no longer than a period of 10 years. (Education Code 17452)

B. Debt Service Structure: The District shall design the financing schedule and repayment of debt so as to take best advantage of market conditions, ensure cost effectiveness, provide flexibility, and, as practical, recapture or maximize its debt capacity for future use while taking into account credit issues, and tax law. Principal amortization will be structured to meet debt repayment, tax rate, and flexibility goals.

C. Debt Sizing: For new money debt issuances for capital improvements, the District shall size the debt issuance with the aim of funding capital projects as deemed appropriate by the Board of Trustees, as long as the issuance is consistent with the overall financing plan, does not exceed the amount authorized by voters, and, unless a waiver is sought and received from the state, will not cause the District to exceed the limitation on debt issuances specified in the California Constitution or Education Code 15106.

D. Capitalized Interest: Unless required for structuring purposes, the District will avoid the use of capitalized interest in order to avoid unnecessarily increasing the bond size and interest expense. Certain types of financings such as COPs or LRBs may require that interest on the debt be paid from capitalized interest until the District has use and possession of the pledged asset. However, the District may pledge assets using an asset transfer structure as collateral for the issue in order to eliminate the need for capitalized interest.

E. Call Provisions: The Superintendent or designee, based upon analysis, by an appropriate financial advisor, of the economics of callable versus non-callable features, shall consider call provisions for each debt issue.

**METHOD OF SALE**

A. Public sale: There are two methods of a public sale of debt, competitive and negotiated. Both methods of sale shall be considered and allowed for all issuance of debt to the extent allowed by law, as each method has the potential to achieve the lowest financing cost given the particular economics and other market conditions related to interest cost.

B. Private placement sale: While not used as frequently as negotiated or competitive public sale methods, a private placement sale may be appropriate when the financing can or must be structured for a single or limited number of purchasers or where the terms of the private placement are more beneficial to the district than either a negotiated or competitive sale.

**CREDIT ENHANCEMENTS**

The District may enter into credit enhancement agreements such as municipal bond insurance, surety bonds, letters of credit, and lines of credit with commercial banks, municipal bond insurance companies, or other financial entities when their use is judged to lower borrowing costs, eliminate restrictive covenants, or have a net economic benefit to the financing.

**INVESTMENT OF PROCEEDS**

The District acknowledges its on-going fiduciary responsibility to actively manage the proceeds of debt issued for public purposes and related reserve funds in a manner that is consistent with state law governing the investment of public funds, prudent investment practices, its own investment policies, and with the permitted securities covenants of related financing documents executed by the District. The District's goals for an investment strategy of borrowed proceeds and related reserve funds shall be the preservation of principal, followed by the availability of funds and then by return on investment.

**REFUNDING AND RESTRUCTURING OF OUTSTANDING DEBT**

Whenever deemed to be in the best interest of the District, the District may consider refunding or restricting outstanding debt. The primary considerations for refunding or restructuring outstanding debt shall be financially advantageous or beneficial structuring. The financial advantages of refunding outstanding debt shall be based upon a review of a net present value analysis of any proposed refunding in order to make a determination regarding the cost-effectiveness of the proposed refunding.

**INTERNAL CONTROLS**

The Superintendent or designee shall establish internal control procedures to ensure that the proceeds of any debt issuance are directed to the intended use. Such procedures shall assist the District in maintaining the effectiveness and efficiency of operations, properly expending funds, reliably reporting debt incurred by the District and the use of the proceeds, complying with all laws and regulations, preventing fraud, and avoiding conflict of interest.

The District shall annually, or as necessary, conduct a due diligence review to ensure its continued compliance with all applicable ongoing obligations.

In addition, the Superintendent or designee shall ensure that the District completes, as applicable, all performance and financial reporting and audits that may be required for any debt issued by the District, including but not limited to periodic reporting to the Board of Trustees, Independent Citizens Oversight Committee, California Debt and Investment Advisory Commission ("CDIAC"), and continuing disclosure requirements applicable to all applicable ongoing obligations.

**RECORDS**

The Superintendent or designee shall maintain transaction records of decisions made in connection with each debt issuance, including the selection of members of the financing team, the structuring of the financing, selection of credit enhancement products and providers, and selection of investment products and providers. Each transaction file shall include the official transcript for the financing, the final number computations, and a post-pricing summary of the debt issue. At the conclusion of any debt issuance, the Superintendent or designee shall timely provide a summary of the financing to the Board of Trustees.

**EXCEPTIONS OR MODIFICATIONS**

The District acknowledges that the capital marketplace fluctuates, municipal finance products change from time to time, and that issue and investor supply and demand vary. These fluctuations may produce situations that are not anticipated or addressed by this policy. As such, the Board of Trustees may make exceptions or modifications to this policy to achieve the debt management goals outlined herein. Flexibility is appropriate and necessary in such situations, provided specific authorization is granted to District staff and the District's advisors by the Board of Trustees.

**EFFECT OF NONCOMPLIANCE**

The failure of any debt financing to comply with one or more the provisions of this policy shall not, in and of itself, affect the validity of any debt issued by the District.

**LEGAL REFERENCES:**

**EDUCATION CODE**

| | |
|---|---|
| 5300-5441 | Conduct of Elections |
| 15100-15262 | Bonds for School Districts and Community College Districts |
| 15264-15276 | Strict Accountability in Local School Construction Bonds |
| 15278-15288 | Citizens Oversight Committees |
| 15300-15425 | School Facilities Improvement Districts |
| 17150 | Public Disclosure of Non-Voter Approved Debt |
| 17400-17429 | Leasing of District Property |
| 17450-17453.1 | Leasing of Equipment |
| 17456 | Sale or Lease of District Property |
| 17596 | Duration of Contracts |
| 42130-42134 | Financial Reports and Certifications |

**ELECTIONS CODE**

1000 Established Election Dates

**GOVERNMENT CODE**

| | |
|---|---|
| 8855 | California Debt and Investment Advisory Commission |
| 53311-53368.3 | Mello-Roos Community Facilities Act |
| 53410-53411 | Bond Reporting |
| 53506-53509.5 | General Obligation Bonds |
| 53550-53569 | Refunding Bonds of Local Agencies |
| 53580-53595.55 | Bonds |
| 53850-53858 | Tax and Revenue Anticipation Notes |
| 53859-53859.08 | Grant Anticipation Notes |

**CALIFORNIA CONSTITUTION**

Article 13A, Section 1 Tax Limitation

Article 16, Section 18 Debt Limit

**UNITED STATES CODE, TITLE 15**

780-4 Registration of Municipal Securities Dealers

**UNITED STATES CODE, TITLE 26**

54E Qualified Zone Academy Bonds

**CODE OF FEDERAL REGULATIONS, TITLE 17**

| | |
|---|---|
| 240.10b-5 | Prohibition against Fraud or Deceit |
| 240.15c2-12 | Municipal Securities Disclosure |

**CODE OF FEDERAL REGULATIONS, TITLE 26**

| | |
|---|---|
| 1.6001-1 | Records |