CAMPBELL UNION SCHOOL DISTRICT

DEBT ISSUANCE AND MANAGEMENT POLICY

School facilities are an essential component of the Campbell Union School District's ("District) educational program and the issuance of debt is a key source for funding the improvement and maintenance of school facilities. This Debt Management Policy ("Policy") has been developed to provide written guidelines for the issuance of indebtedness by the District in order for the District to meet its capital infrastructure and cash requirements. These guidelines will serve the District in determining the appropriate uses for debt financing and debt structures as well as establishing prudent debt management goals.

Article I.

Purpose and Goals

This Policy has been developed in accordance with practices recommended by the Government Finance Officers Association for the purpose of providing a framework for debt management and capital planning by the District. This Policy has been drafted in order 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. The Board of Education of the District ("Board") recognizes this Policy to be financially prudent and in the District's best economic interest.

This Policy has been developed to meet following goals:

(1) Identifying the purposes for which the debt proceeds may be used or are prohibited.

(2) Identifying the types of debt that may be issued or prohibited.

(3) Describing the relationship of the debt to, and integration with, the District's Building Program or budget.

(4) Establishing policy goals related to the District's planning goals and objectives.

(5) Implementing internal control procedures to ensure that the proceeds of the proposed debt issuance will be directed to the intended use upon completion of the issuance.

(6) Establishing to voters, taxpayers and community that the District has plans and procedures to implement is financing programs prudently and transparently.

(7) Demonstrating to rating agencies and investors that the District is well managed.

(8) Meeting the ongoing obligations associated with the issuance of bonds under State and federal tax and securities laws.

(9) Developing a regular communication structure around the District's general obligation bond program.

Article II.

Purposes for Which Debt Proceeds May be Used or Prohibited

Section 2.01 Authority and Purposes of the Issuance of 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. Under these provisions, the District may contract debt to pay for the cost of acquiring, constructing, reconstructing**,** rehabilitating, replacing, improving, extending, enlarging, and equipping such projects; to refund existing debt; or to provide for cash flow needs.

Section 2.02 State Law

Section 18 of Article XVI of the State Constitution contains the basic "debt limitation" formula applicable to the District.

There are a number of State law provisions that govern the issuance of general obligation bonds ("GO Bonds") by school districts. Sections 1(b)(2) and 1(b)(3) of Article XIII A of the State Constitution allow the District to issue traditional GO Bonds and Proposition 39 bonds, respectively. The statutory authority for issuing GO Bonds is contained in Section 15000 et seq. of the Education Code. Additional provisions applicable only to Proposition 39 GO Bonds are contained in Section 15264 et seq. of the Education Code. An alternative procedure for issuing GO Bonds is also available in Section 53506 et seq. of the Government Code. The statutory authority for issuing GO Bonds to refund outstanding GO Bonds is contained in Section 53580 et. seq. of the Government Code.

The statutory authority for issuing tax and revenue anticipation notes ("TRANs") is contained in Section 53850 et seq. of the Government Code. Authority for lease financings is found in Section 17455 et seq. of the Education Code and additional authority is contained in Sections 17400 et seq., 17430 et seq. and 17450 et seq. of the Education Code. The District may also issue Mello-Roos bonds pursuant to Section 53311 et seq. of the Government Code.

Section 2.03 Debt Issued to Finance Operating Costs

The District may not finance general operating costs from debt having maturities greater than thirteen months. However, the District may deem it necessary to finance cash flow requirements under certain conditions. Such cash flow borrowing must be payable from taxes, income, revenue, cash receipts and other moneys received or accrued during the fiscal year in which the debt is issued.

General operating costs include, but are not limited to, those items normally funded in the District's annual operating budget and having a useful life of less than one year.

The District's Chief Financial Officer ("CFO") will review potential financing methods to determine which method results in the lowest cost to the District. Potential financing sources include TRANs, commercial bank lines of credit, temporary borrowing from the County of Santa Clara Treasurer, and internal temporary interfund borrowing. In analyzing the impact on District cost, the CFO will consider the lost interest earnings for the District funds providing temporary borrowing capacity.

Article III.

Types of Debt That May be Issued or Prohibited

Section 3.01 Types of Debt Authorized to be Issued

A. Short-Term: The District may issue fixed-rate and/or variable rate short-term debt, which may include TRANs, when such instruments allow the District to meet its cash flow requirements. However, the District's general objective is to manage its cash position in a manner so that internally generated cash flow is sufficient to meet expenditures. The District may also issue commercial paper in the context of funding shorter-term acquisitions, such as equipment, or interim funding for capital costs that will ultimately be replaced with longer-term certificates of participation ("COPs"). The District may also issue bond anticipation notes ("BANs") to provide interim financing for bond projects that will ultimately be paid from GO Bonds.

B. Long-Term: Debt issues may be used to finance essential capital facilities, projects and certain equipment where it is appropriate to spread the cost of the projects over more than one budget year. In so doing, the District recognizes that future taxpayers who will benefit from the investment will pay a share of its cost. Projects which are not appropriate for spreading costs over future years will not be financed with long-term debt. Long-term debt will not, under any circumstances, be used to fund District operations.

   The District may issue long-term debt which includes, but is not limited to, GO Bonds. New money GO Bonds may be issued under Article XIII A of the State Constitution, either under Section 1(b)(2) which requires at least a two-thirds majority or Section 1(b)(3) ("Proposition 39") which requires approval by at least 55% of voters, subject to certain accountability requirements and additional restrictions.

   The District may also enter into long-term leases and/or COPs for public facilities, property, and equipment.

C. Equipment Financing: Lease obligations are a routine and appropriate means of financing capital equipment. However, lease obligations also have the greatest impact on budget flexibility. Therefore, efforts will be made to fund capital equipment with pay-as-you-go financing where feasible. The District's goal is that lease obligations will fund only the highest priority equipment purchases. With the exception of leases undertaken through the

District's standard procurement process, all equipment with a useful life of less than six (6) years shall be funded on a pay-as-you-go basis unless the following conditions are met:

i. In connection with the proposed District budget, the Superintendent makes the finding that there is an "economic necessity" based on a significant economic downturn, earthquake or other natural disaster and there are no other viable sources of funds to fund the equipment purchase.

ii. The Board concurs with the Superintendent's finding in the adoption of the budget.

iii. The debt ceilings of this Policy are not exceeded.

D. Lease Financing of Real Property: Lease financing for facilities is appropriate for facilities for which there is insufficient time to obtain voter approval or in instances where obtaining voter approval is not feasible. Such financings will be structured in accordance with this Policy. If and when proceeds of voter approved debt become available subsequently, the District may use such proceeds to pay off the financing where appropriate.

E. Identified Repayment Source: The District will, when feasible, issue debt with a defined revenue source in order to preserve the use of General Fund supported debt for projects with no stream of user-fee revenues. Examples of revenue sources include voter-approved taxes that repay general obligation or special tax bonds.

F. Use of General Obligation Bonds: Voter-approved GO Bonds typically provide the lowest cost of borrowing and do not impact the District's General Fund. New money GO Bond debt, to the extent authorized for the District, requires either two-thirds approval of the voters (in the case of traditional GO Bonds) or 55% approval of the voters (in the case of GO Bonds issued pursuant to Proposition 39). In recognition of the difficulty in achieving the required voter approval to issue GO Bonds, such bonds will be generally limited to facilities and projects that provide wide public benefit and for which broad public support has been generated.

A significant portion of the District's capital projects are projected to be funded by GO Bond proceeds. Projects financed by the GO Bonds will be determined by (a) the project list approved by voters and (b) the useful life of the projects financed with bond proceeds.

New money GO Bond proceeds will only be used to fund projects approved by voters in accordance with the project lists set forth in the applicable voter authorization. However, the project lists shall not be construed to set forth the order of projects in regards to priority or schedule. GO Bond proceeds will not, under any circumstances, be used to fund District operations. The District will issue all new money GO Bonds on a tax-exempt basis and meet all state and federal tax law requirements to do so; provided, however, that the District may consider taxable bonds in accordance with paragraph (I) below. Financing costs for each GO Bond issuance shall be determined in advance of the sale. District should consider available data when determining financing costs, such as financing cost data for comparable bond issuances from the California Debt and Investment Advisory Commission (CDIAC).

New money GO Bond issues may be used to finance essential capital facilities, projects and certain equipment where it is appropriate to spread the cost of the projects over more than one budget year. The average life of new money GO Bonds sold will not exceed the useful life of the projects being financed. In doing so, the District recognizes that future taxpayers who will benefit from the investment will pay an appropriate share of its cost.

G. Use of Revenue Bonds: Revenue bonds supported solely from fees are not included when bond rating agencies calculate debt ratios. Repayment of such bonds would rely on dedicated, pledged funds such as developer fees. Accordingly, in order to preserve General Fund debt capacity and budget flexibility, revenue bonds will be preferred to General Fund supported debt when a distinct and identifiable revenue stream can be identified to support the issuance of bonds at a cost effective rate.

H. Use of Asset Transfer COPs: The District will use an "asset transfer" COP financing to finance emergency capital needs for which there are no other viable financing options. Additionally, asset transfer COPs may be used if significant savings in financing costs can be generated compared to other financing alternatives.

I. Use of Special Financing Structures: The District may use special financing structures permitted by the federal government if they are determined to result in sufficiently lower financing costs versus traditional tax-exempt bonds and/or COPs to offset any additional administrative and compliance costs and risks.

J. Capital Appreciation Debt: The District shall issue all bonds as current interest bonds. Specifically, the District will not issue any capital appreciation bonds or any hybrid structures such as convertible capital appreciation bonds.

Article IV.

Relationship of Debt to and Integration with District's Building Program or Budget

Section 4.01 Impact on Operating Budget and District Debt Burden

Both short and long-term scenarios will be evaluations when considering a debt issuance, the potential impact of debt service and additional operating costs associated with new projects on the operating budget of the District. The projected ratio of annual debt service secured by the General Fund to General Fund expenditures is one method, as is the additional debt burden of overlapping agencies on taxpayers. The cost of debt issued for major capital repairs or replacements should be judged against the potential cost of delaying such repairs.

Section 4.02 Building Program

Planning and management of the District's Building Program rests primarily with the Facilities Department under the Superintendent's direction, subject to review and approval by the Board of

Education. The Facilities Department will, as appropriate, supplement and revise an 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. The plans must include a summary of total cost of each project, schedules for the projects, the expected quarterly cash requirements, and annual appropriations in order for the projects to be completed. The Office of the CFO may prepare an annual Capital Financing Plan in conjunction with the capital program budget as part of the annual budget for the District.

Section 4.03 Refunding and Restructuring Policy

A. Definitions*:

Current Refunding: In a current refunding, the bonds to be refunded are called within 90 days of the date of issuance of the refunding bonds. The Federal tax code does not restrict the number of times that all or a portion of a prior tax-exempt bond issue can be refunded on a current basis.

Advance Refunding: In an advance refunding, the bonds to be refunded are called more than 90 days after the date of issuance of the refunding bonds. Federal tax code generally provides that a bond issue may be advance refunded only once.

Gross or Future Value Savings: Gross or future value savings from a refunding is calculated as the difference between the debt service on the refunded bonds and the debt service on the refunding bonds. Gross or future value savings does not factor in the time value of money.

Present Value Savings: Present value savings from a refunding adjusts gross or future value savings to take into account the time value of money. When calculating present value savings, gross savings shall discounted by the calculated arbitrage yield of only the refunding bonds.

Negative Arbitrage: In a refunding bond issuance, proceeds of a refunding bond are typically placed in an escrow fund between the issuance of the refunding bonds and the call date of the refunded bonds. Negative arbitrage represents the opportunity cost associated with the escrow due to the higher interest expense on the new refunding bonds compared to the earnings on the escrow funds.

Savings Efficiency: The present value savings on a refunding issuance divided by the sum of present value savings and negative arbitrage.

*Many of these definitions are adapted from the definitions provided by the Municipal Securities Rulemaking Board ("MSRB").

B. Policy:

Whenever deemed to be in the best interest of the District, the District shall consider refunding or restructuring outstanding debt when financially advantageous or beneficial for debt repayment and structuring flexibility. The CFO shall review a net present value analysis of any proposed refunding in order to make a determination regarding the cost-effectiveness of the proposed refunding. The minimum net present value savings as a percentage of the refunded aggregate principal amount to be considered for refunding shall be no less than 3% per maturity unless, at the discretion of the CFO, a lower percentage is more applicable, for situations including, but not limited to, maturities with only a few years until maturity or COPs being defeased or redeemed from proceeds of GO Bonds or other structuring considerations. In addition, the net present value savings must exceed any negative arbitrage associated with the refunding, subject to the CFO's discretion. Another consideration in deciding which debt to refinance and the timing of the refinancing shall be maximization of the District's expected net savings over the life of the bonds or COPs.

The CFO may waive the 3% per maturity savings threshold when evaluating a fixed rate refunding of variable rate debt, as the refinancing of certain variable rate structures may provide other substantial benefits to the District that include, but are not limited to, elimination of interest rate risk, renewal risk, and counterparty risk.

To the extent possible, the District shall attempt to combine the issuance of GO refunding bonds with the issuance of new money GO bonds to reduce indirect costs, such as staff time. The issuance of bonds requires significant staff time. While GO Bond refundings save money for taxpayers by reducing interest costs, the refunding process puts pressure on already constrained District resources.

The CFO shall be empowered to restructure escrow funds for the District's refunded bonds and COPs from time to time when savings can be achieved. The CFO shall consult with bond counsel prior to the restructuring of any escrow funds to ensure that the securities on deposit therein comply with all applicable escrow, legal and tax requirements. The CFO shall review a savings analysis of any proposed restructuring in order to make a determination regarding its cost-effectiveness. The target net savings shall be no less than $500,000 unless, at the discretion of the CFO, a lower amount is more appropriate given the nature of the particular escrow fund. Any savings from such restructuring shall be applied in accordance with legal and tax considerations and legal analysis at the time such savings are available.

The District may issue GO Bonds to refund existing bonds as long as it meets the following conditions:

i. Refundings will be pursued to generate savings to taxpayers according to the following criteria:

- Refundings on a tax-exempt basis shall be considered by the Superintendent and recommended to the Board when [net?] present value savings reach or exceed 3% for a current refunding or 4% for an advance refunding.

- Taxable refunding of tax-exempt GO Bonds shall be considered by the Superintendent and recommended to the Board when [net?] present value savings reach or exceed 5%.

– For an advance refunding, savings efficiency shall be greater than 50%.

– The District shall not capture any savings from the refunding for its operating budget or for funding additional capital projects (i.e., no "cash-out" refundings).

ii. The final maturity of the refunding bonds shall be no longer than the final maturity of the refunded bonds. These criteria represent minimum standards and the District may choose not to pursue a refunding even when all such criteria are met.

Article V.

Policy Goals Related to District's Planning Goals and Objectives

In following this Policy, the District shall pursue the following goals:

1. The District shall strive to fund capital improvements from referendum-approved GO Bond issues to preserve the availability of its General Fund for District operating purposes and other purposes that cannot be funded by such bond issues.

2. The District shall endeavor to 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. The District shall 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. The District shall remain mindful of its statutory debt limit in relation to assessed value growth within the school district and the tax burden needed to meet long-term capital requirements.

5. The District shall consider market conditions and District cash flows when timing the issuance of debt.

6. The District shall determine the amortization (maturity) schedule which will best fit with the overall debt structure of the District at the time the new debt is issued.

7. The District shall match the term of the issue to the useful lives of assets whenever practicable and economic, while considering repair and replacement costs of those assets to be incurred in future.

8. The District shall, when planning for the issuance of new debt, consider the impact of such new debt on overlapping debt of local, state and other governments that overlap with the District.

9. The District shall, when issuing debt, assess financial alternatives to include new and innovative financing approaches, including whenever feasible categorical grants, revolving loans or other State/federal aid, so as to minimize the encroachment on the District's General Fund.

10. The District shall, when planning for the sizing and timing of debt issuance, consider its ability to expend the funds obtained in a timely, efficient and economical manner.

Article VI.

Internal Control Procedures to Ensure for Issuance of Debt and Use of Proceeds

Section 6.01 Structure of Debt Issues

A. Maturity of Debt: The duration of a debt issue shall be consistent, to the extent possible, with the economic or useful life of the improvement or asset that the issue is financing. The final maturity of the debt shall be equal to or less than the useful life of the assets being financed, and the average life of the financing shall not exceed 120% of the average life of the assets being financed. In addition, 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.

i. GO Bonds:

a. *New Money Bond Issuances*: For new money bond issuances, the District shall size the bond issuance with the aim of funding capital project needs over the subsequent two to three years as long as it does not exceed the amount authorized by voters, will not cause the District to exceed the limitation on bond issuances described above, and is consistent with the overall financing plan. To the extent possible, the District will also consider credit issues, market factors (e.g. bank qualification) and tax law when sizing the District's bond issuance.

b. *New Money Bond Term*: To the extent possible, the District will structure GO debt with a 30 year maturity term to reduce overall borrowing costs.

c. *Refunding Bond Issuances*: The sizing of refunding bonds will be determined by the amount of money that will be required to cover the principal of, accrued interest (if any) on, and redemption premium (if any) for the bonds to be defeased on the call date and to cover appropriate financing costs.

d. *Maximum Maturity*: All bonds issued by the District shall mature within 35 years of the issuance date. The final maturity of bonds will also be limited to the average useful life of the assets financed or as otherwise required by tax law. The District may consider a separate series of bonds to fund projects with an average useful life of less than 10 years.

e. *Maximum Repayment Ratio*: The maximum repayment ratio, where total future debt service payments are divided by the principal of the bonds issued, shall be within four to one for each series of bonds and for each authorization.

ii. Lease-Purchase Obligations: The final maturity of equipment or real property lease obligations will be limited to the useful life of the assets to be financed. The final maturity of real property obligations will also consider the size of the financing.

Lease Revenue Bonds or Certificate of Participation (Lease Financing). Any long-term lease obligations should be structured so that the District may use bond proceeds to pay off the financing, if and when proceeds of voter approved debt becomes available.

a. New Money Term: To the extent possible, the District will structure long-term lease obligations with a 30 year maturity term to reduce overall borrowing costs.

b. Refunding Bond Issuances: The sizing of refundings will be determined by the amount of money that will be required to cover the principal of, accrued interest (if any) on, and redemption premium (if any) for the obligations to be defeased on the call date and to cover appropriate financing costs.

c. Maximum Maturity: All long-term lease obligations issued by the District shall mature within 35 years of the issuance date. The final maturity of obligations will also be limited to the average useful life of the assets financed or as otherwise required by tax law.

d. Maximum Repayment Ratio: The maximum repayment ratio, where total future debt service payments are divided by the principal of the obligations issued, shall be within four to one for each series of obligations.

iii. Mello-Roos Obligations and Revenue Bonds: These obligations, although repaid through additional taxes levied on a discrete group of taxpayers or from pledged developer fees, constitute overlapping indebtedness of the District and have an impact on the overall level of debt affordability. The District will develop separate guidelines for the issuance of such obligations as the need arises.

iv. Debt Service Structure: The District shall design the financing schedule and repayment of debt so as to take best advantage of market conditions, provide flexibility, and, as practical, to recapture or maximize its debt capacity for future use. Annual debt service payments will generally be structured on a level basis per component financed; however, principal amortization may occur more quickly or slowly where permissible, to meet debt repayment, tax rate, and flexibility goals.

i. For GO Bonds issued under a Proposition 39 authorization, the District must show, at the time of each bond issuance, that tax rates for all bonds issued under the same Proposition 39 authorization will be no more than $60 per year per one hundred thousand dollars ($100,000) of taxable property when assessed valuation is projected by the District to increase in accordance with Article XIIIA of the California Constitution. To make the Proposition 39 tax rate certification, the District shall assume the lower of (a) 4% annual tax base growth and (b) 10-year average assessed valuation growth (calculated as the simple average of the last ten annual growth rates). The District shall also give strong consideration to tax rate targets established at the time of the election.

ii. To the extent allowable under Education Code 15250, the District may request the County to set tax rates in such a way as to create an annual reserve for the purposes of avoiding fluctuating tax rates. Such reserves will remain in the District's debt service fund with the County and will be used to offset future taxpayer debt service obligations in connection with GO Bonds. When appropriate, such reserves may be used to redeem existing bonds prior to their maturity.

v. 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. To the extent that there is capitalized interest, the total amount of the capitalized interest shall not exceed the interest expense on the bonds over the first three years and will comply with State and federal tax law requirements. Certain types of financings such as COPs 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.

vi. Call Provisions: The CFO shall set forth call provisions for each debt issuance based upon analysis from the financial advisor or underwriter of the economics of callable versus non-callable features. All GO Bonds issued with a maturity of more than ten years shall have an optional redemption provision at the 10.5 year mark or earlier.

Section 6.02 Sale of Securities

There are three methods of sale: competitive, negotiated and private placement. The District may consider all three methods of sale and choose the one with the potential to achieve the lowest financing cost or to generate other benefits to the District. Any award through negotiation shall be subject to approval by the District, generally by the CFO or other person designated by the CFO, to ensure that interest costs are in accordance with comparable market interest rates. When a competitive bidding process is deemed the most advantageous method of sale for the District, the award will be based upon, among other factors, the lowest offered True Interest Cost ("TIC"). While not used as frequently as negotiated or competitive sale methods, a private placement sale would 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. The Board shall be informed of the method of sale and the rationale for the chosen method of sale either prior to the sale or within a reasonable time period after the sale of the debt.

Section 6.03 Credit Enhancements and Derivatives

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. The credit rating of any counterparty must be at least "A+" at the time of the transaction. While this policy allows for the use of derivatives, a separate comprehensive policy following Standard & Poor's Global Ratings guidelines would be developed and adopted if derivatives were used. The District shall use a competitive process to select providers of such products to the extent applicable. In order to assure that the District purchases credit enhancement cost-effectively, the CFO will review an economic analysis, by maturity where appropriate, prepared by the financial advisor or underwriter before selecting which maturities to insure.

Section 6.04 Debt Limitation

Section 15106 of the Education Code limits the District's total outstanding bonded debt (i.e., the principal portion only) to 2.5% of the assessed valuation of the taxable property of the District. Thus, Section 15106 of the Education Code limits the issuance of new debt when the District has total bonded indebtedness in excess of 1.25% of the assessed valuation in the District. TRANs and lease payment obligations in support of COPs generally do not count against this limit except as provided in Section 17422 of the Education Code**.**

Section 6.05 Credit Rating Methodologies and Tracking of District's Performance Scores

A. Debt Burden Ratios and Credit Rating Methodologies: The District's credit ratings are an important factor that directly impact the interest cost of the District's debt. S&P and Moody's have released revised methodologies for determining an issuer's underlying or implicit general obligation rating. A key objective of the new methodologies is to make the process of determining an issuer's rating more transparent, thus enabling the District itself to see how its performance on various rating criteria affects its credit ratings.

In addition to considering the District's credit performance as measured using the S&P, Moody's, Fitch's methodologies, the following debt burden ratios should be considered in developing debt issuance plans:

- Ratio of Outstanding Debt to Assessed Value. The ratio "Direct Debt" shall be calculated using both GO Bonds and COPs. In addition, the ratio "Overall Direct Debt" or "Overall Debt" shall be calculated by aggregating all debt issues attributable to agencies located in the District as presented in the California Municipal Statistics Overlapping Debt Statement. It is important to monitor the levels and growth of Direct Debt and Overall Debt as they portray the debt burden borne by the District's taxpayers and serve as proxies for taxpayer capacity to take on additional debt in the future.

- Ratio of Outstanding Debt Per Capita. The formula for this computation is Outstanding Debt divided by the population residing within the District, based upon the most recent estimates as determined by the United States Bureau of the Census. Ratios shall be computed for both "Direct Debt Per Capita" and "Overall Debt Per Capita".

- Ratio of Annual Lease Debt Service to General Fund Expenditures. The formula for this computation is annual lease debt service expenditures divided by General Funds (i.e., General and Debt Service Funds) expenditures (excluding interfund transfers).

- Proportion of Fixed-Rate and Variable-Rate COPs Issues. The District can benefit from some variable rate exposure in its portfolio of COPs. However, the District shall keep its variable rate exposure, to the extent not hedged or swapped to fixed rate, at or below 10% of the total principal of outstanding COPs. "Hedges" include unrestricted cash resources as well as interest rate products such as caps and collars. Under no circumstances will the District issue variable rate debt for arbitrage purposes. If variable rate debt is used, the CFO will periodically, but at least annually, determine whether it is appropriate to convert the debt to fixed interest rates.

B. Debt Affordability: The determination of how much indebtedness the District should incur will be based on an analysis of the long-term infrastructure needs of the District, and the impact of planned debt issuances on the long term affordability of all outstanding debt. The analysis will be based on the District's current capital plan and will include all District financings to be repaid from the General Fund, special funds or *ad valorem* property taxes. The affordability of the issuance of debt will be determined by evaluating, among other factors, the impact such issuance has on the District's credit ratings and borrowing costs and analyzing debt service metric trends over time.

C. Targets and Ceilings for Debt Affordability: The issuance of debt to be repaid from the General Fund and other internal District resources (typically, the District's certificates of participation) must be carefully monitored to maintain a balance between debt and said resources.

The annual debt service limit for COPS and Lease Revenue Bonds attributable to the general fund is capped at 5% of general fund expenditures. The cap excludes instances where the District might use general fund reserves or other monies to refinance or pay down debt.

The District's credit environment is also affected by the District's issuance of its GO Bonds paid from voter approved tax levies as well as the debt issuance activities of other agencies whose jurisdictions overlap those of the District ("Overlapping Debt"). It is important for the District to examine debt burden ratios for such Overlapping Debt even though such debt is not paid from the District's General Fund or other internal resources. Further, the tax receipts used to repay the District's GO Bonds are levied and collected by the County of Santa Clara and are not controlled by the District.

D. Monitor Impact on District Taxpayer of Voter-Approved Taxes: In addition to the analysis of the District's debt affordability, the impact of debt issuance on District taxpayers shall also be reviewed. This analysis will incorporate the District's GO Bond tax levies as well as tax rates imposed by overlapping jurisdictions. In addition, the District will monitor the performance of the actual tax levy rate per $100,000 of assessed value for each GO Bond authorization versus what the tax levy rate was expected to be at the time of the original bond election.

Article VII.

Related Issues

Section 7.01 Reporting of Debt

The CFO will also monitor the following information on an annual basis: (i) bonded debt limitation and assessed valuation growth, (ii) debt outstanding, (iii) bonds authorized but unissued, (iv) refundings, (v) tax rate performance on outstanding bonds, (vi) cost of district debt, and (vii) credit ratings.

Section 7.02 Financial Disclosure

The Superintendent and/or CFO is responsible for complying with all ongoing obligations associated with being an issuer of debt and for conducting due diligence reviews on an annual basis. Training of the responsible officer should occur in conjunction with or in advance of the annual review.

The District shall prepare or cause to be prepared appropriate disclosures as required by Securities and Exchange Commission Rule 15c2-12, the Federal Government, the State of California, rating agencies, bond insurers, underwriters, bond counsel, investors, taxpayers, and other persons or entities entitled to disclosure to ensure compliance with applicable laws and regulations and agreements to provide ongoing disclosure.

The District shall comply with Securities and Exchange Commission Rule 15c2-12 on both initial disclosures in connection with each debt financing and continuing disclosure requirements both on an annual basis and with the occurrence of event enumerated by the SEC as set forth in each continuing disclosure undertaking.

The District shall engage a dissemination agent to assist the District in preparing annual reports and event notices to comply with ongoing continuing disclosure requirements. The District shall conduct an annual review of its continuing disclosure filings to ensure ongoing compliance with its continuing disclosure requirements.

The District shall make available its annual budgets, and Official Statements on the District's website, the District's dissemination agent's website, and on the Electronic Municipal Market Access (EMMA) website so that interested persons have a convenient way to locate major financial reports and documents pertaining to the District's finances and debt.

To the extent that the District may inadvertently miss any of its ongoing continuing disclosure requirements, the District shall make reasonable efforts to rectify the situation and to properly disclose any lapses in future disclosures as required.

Section 7.03 Review of Financing Proposals

All capital financing proposals involving a pledge of the District's credit through the sale of securities, execution of loans or lease agreements, or otherwise directly or indirectly lending or pledging of the District's credit initially shall be referred to the CFO who shall determine the financial feasibility of such proposal and make recommendations accordingly to the Board.

Section 7.04 Establishing Financing Priorities

The CFO shall administer and coordinate this Policy and the District's debt issuance program and activities, including timing of issuance, method of sale, structuring the issue, and marketing strategies. The CFO shall, as appropriate, report to the Superintendent and the Board regarding the status of the current and future year programs and make specific recommendations.

Section 7.05 Rating Agency and Credit Enhancer Relations

The District shall endeavor to maintain effective relations with the rating agencies and, as appropriate, credit enhancers. The Superintendent and other District representatives, along with the District's financial advisor, shall meet with, make presentations to, or otherwise communicate with the rating agencies and, as appropriate, credit enhancers on a consistent and as requested basis in order to keep the agencies informed concerning the District's bond program and general financial condition.

Based on the District's current ratings, the District does not anticipate an economic benefit from credit enhancement on the bonds in the form of municipal bond insurance. However, the need for credit enhancement will be reconsidered based on the market environment at the time of each bond issuance.

Section 7.06 Investor Outreach

The District shall endeavor to maintain a positive relationship with the investment community. The Superintendent or designee shall, as necessary, make information relevant to the District's indebtedness bonds available to investors. This information may include, but will not necessarily be limited to, the District's audited financial statements, adopted budgets, and other ongoing budget documents. To the extent applicable as determined by the Superintendent, such information may also be posted on the District's website and/or on the EMMA (Electronic Municipal Market Access) website.

Section 7.07 Investment of Borrowed Proceeds

The District acknowledges its on-going fiduciary responsibilities to actively manage the proceeds of debt issued for public purposes in a manner that is consistent with California law governing the investment of public funds and with the permitted securities covenants of related financing documents executed by the District. Where applicable, the District's official investment policy and legal documents for a particular debt issuance shall govern specific methods of investment of bond related proceeds. Preservation of principal will be the primary goal of any investment strategy followed by the availability of funds, followed by return on investment.

With regard to GO Bonds, the District expects to deposit new money proceeds in the Building Fund and the Interest and Sinking Fund and invest such new money bond proceeds in the County Treasury Pool. To the extent that the District is permitted and interested in pursuing other investment opportunities, the Superintendent will ensure that the investments are consistent with California law governing the investment of public funds and with the permitted securities covenants of related bond documents executed by the District.

Refunding bond escrow funds shall be invested in State and Local Government Securities (SLGs) except as permitted below. The District may invest escrow funds in open market securities as long as such investment is expected to generate a benefit net of costs of at least $10,000 or if SLGs are unavailable. The District shall competitively bid the purchase of investment securities (except SLGs issued by the US Treasury), investment contracts, float contracts, forward purchase agreements and any other investments pertaining to its tax-exempt debt issues. A duly registered investment advisor or the County of Campbell UnionTreasurer-Tax Collector shall solicit bids for investment products. Eligible and qualified providers, but not any of the members of the District's financial advisor or underwriter pool, may bid on investment products.

The management of public funds shall enable the District to respond to changes in markets or changes in payment or construction schedules so as to (i) ensure liquidity and (ii) minimize risk.

Section 7.08 Federal Arbitrage Rebate Requirement

The District shall comply with all ongoing responsibilities associated with being an issuer of tax-exempt debt, such as arbitrage rebate requirements and appropriate retention of documents. The District shall conduct an annual review to monitor the compliance with these ongoing responsibilities.

The District shall maintain or cause to be maintained an appropriate system of accounting to calculate bond investment arbitrage earnings in accordance with the Tax Reform Act of 1986, as amended or supplemented and applicable United States Treasury regulations related thereto.

Section 7.09 Transaction Records

The CFO or designee shall maintain complete records of decisions made in connection with each financing, 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. Each transaction file shall include the official transcript for the financing, the final number runs and a post-pricing summary of the debt issue. The CFO shall timely provide a summary of each financing to the Board.

Section 7.10 Update and Waiver of Policy

This Policy is intended to be reviewed and updated on a regular basis. Changes in the capital markets, legal requirements, District programs, and other unforeseen circumstances can produce situations that are not covered by this Policy. It may become necessary or desirable for the Board to waive a provision of this Policy on a temporary basis. Such waivers shall be clearly proposed to or by the Board, appropriately noticed and discussed according to the District's established process.

Section 7.11 Reporting to the Board

Before the issuance of each series of debt, the Superintendent or the District's financial advisor or underwriter shall present information to the Board about the proposed debt issuance including purpose of the debt, method of sale, and any other relevant information as determined by the Superintendent.

Section 7.12 Financing Team Members

A. Retention of Consultants

i. *General*: In general, financial advisors, investment advisors, bond counsel, disclosure counsel, tax counsel, and underwriters will be selected through a Request for Proposals (RFP) or Request for Qualifications (RFQ) process, whichever is most appropriate given the circumstances. Such contracts may be awarded on a sole source basis when an RFP/RFQ process would not be feasible given timing or other considerations, where the District does not believe such a process would be in its interests; and or where such a process will not provide any advantage to the District in terms of cost or other factors. The District's contracting policies will apply to all contracts with finance professionals. Generally, contracts for financial advisors, investment advisors, underwriters, and bond, tax, and disclosure counsels may be for up to five years, consistent with Education Code contracting requirements.

Members of the financing team for each specific transaction will be identified and presented to the Board as part of the financing transaction Board report or as a separate information item on the Board agenda. If however, an urgent financing opportunity or need arises such that there is not enough time to obtain Board approval of the financing team through the regular process, the Superintendent may authorize the appointment of the team.

ii. *Underwriters*: The minimum qualifications for underwriters to be considered for District transactions are: the firm must have a permanent office in the State of California; the firm must have completed at least ten (10) financings in the prior two years; the firm must maintain net capital of at least $100,000 at all times; the lead investment banker must have at least three years of experience working on school district transactions and must be authorized to sign a bond purchase contract; the firm must hold and maintain at all times all appropriate and required Federal and State licenses and registrations; and the firm must at all times have at least one full-time professional employee with a NASD Series 53 license (Municipal Securities Principal).

In the event the District issues bonds through a negotiated sale, the selection of underwriters will be based upon the following factors in decreasing order of priority:

a. Past performance on financing transactions. Exceptionally strong or poor results on District transactions will carry extra weight.

b. Analysis of the District's financing needs and proposed financing structure, recommended marketing plan and determination that the firm has sufficient net capital.

c. Proposed underwriting fees, including takedown, direct expenses, and the cost of underwriter's counsel.

d. Demonstrated commitment to, track record in, and investing in the communities served by the District.

Underwriters may be selected for multiple transactions if multiple issuances are planned for the same project.

iii. *Financial Advisor*: The District may retain a financial advisory team (including a municipal advisor) to provide general advice on the District's debt management program, financial condition, budget options and rating agency relationships. Additionally, the District may select a financial advisor to structure the District's GO Bond and refunding bond issuances and may be used on an as-needed basis to structure issuances that do not fall into the other categories of District debt obligations. Any firm serving as financial advisor must be duly registered at all times with both the Securities and Exchange Commission ("SEC") and the MSRB and must also hold any certifications and/or licenses required by the SEC and/or MSRB.

iv. *Bond Counsel, Tax Counsel, and Disclosure Counsel*: The District will select a legal team on an as-needed basis to assist with debt issuances or special projects. The same firm may provide service to the District on more than one necessary role; provided, however, that such firm may not represent the interest of other parties on the same transaction. Additionally, one or more of the firms may be selected to provide general legal advice on, among other things, debt financing, disclosure documents, bankruptcy laws, real estate matters, securities laws and continuing disclosure.

v. *Range of Financings*: Financial advisory, legal counsel, and underwriting teams will be selected for the District's COPs financings, TRANs, Mello-Roos, special revenue bonds and any other bond program which may be created.

Use of Financial Advisors

i. *Use of Financial Advisors*: Any firm serving as financial advisor must be duly registered as a municipal advisor (as defined in the Dodd-Frank Act) on financings at all times with both the SEC and the MSRB and must also hold any certifications and/or licenses required by the SEC and/or MSRB. In recognition of the fact that in a financing the goals of the underwriters and the issuer are inherently in conflict, the District will strive to hire financial advisors who do not participate in the underwriting or trading of bonds or other securities. Under certain circumstances, however, it may be in the District's interests to hire an investment banking firm to act as financial advisor on specific bond issues, although said firm must obey any SEC and/or MSRB rules and restrictions pertaining to broker-dealer or investment banks serving as financial advisor.

ii. *Use of Investment Advisors for Investment Advice*: An investment advisor may be hired to provide investment advice on refundings and other transactions with specialized investment needs. Any firm serving as investment advisor on a District transaction must be registered at all times as an investment advisor with both the SEC and the MSRB, as applicable, must hold any certifications and/or licenses required by the SEC and/or MSRB, and must present its Form ADV or equivalent and written fee proposal to the District prior to commencement of any work.

B. Disclosure by Financing Team Members; Ethics

All financing team members will be required to provide full and complete disclosure, under penalty of perjury, relative to any and all agreements with other financing team members and outside parties. The extent of the disclosure may vary depending on the nature of the transaction. However, in general terms, no agreements will be permitted which would compromise a firm's ability to provide independent advice which is solely in the best interests of the District, or which could reasonably be perceived as a conflict of interest. All financing team members shall abide by the Board's code of ethics.

Section 7.13 Annual Review

The Superintendent and/or CFO will be involved in the annual review of the bond program and this Policy. The Facilities and Finance Subcommittee of the Board may be involved in the annual review as well.

A. Annual Topic Reviews

The annual update on the bond program shall include, but not be limited to, the following topics:

(a) Tax Rate Analysis:

1) Information on the actual tax rates per $100,000 of assessed value per each bond authorization over the last ten years versus the tax rate target established at the time of the election.

2) Projection of future tax rates based on various tax base growth scenarios.

3) Actual tax rate for the current year for the District within the context of tax rates for all other school districts in the County.

(b) Bonding Capacity Analysis

(c) Ratings on the District's Bonds

(d) Market Update and Refunding Opportunities

(e) New Developments for California Bond Financings

(f) Post-issuance Compliance Update

1) Review of continuing disclosure filings.

2) Review of arbitrage rebate issues.

3) Review of document retention.

(g) Bond Oversight Committee reports (for GO Bonds issued under Proposition 39)

(h) Bond Performance Audits (for GO Bonds issued under Proposition 39)

The annual update on the bond program may be in conjunction with other updates on ongoing capital facility needs, performance and/or financial audits required with respect to GO Bonds, or other such reports.

B. Identification and Correction of Any Non-Compliance

The annual review shall identify any non-compliance with post-issuance obligations. If there are any issues that arise as a result of these annual reviews on a post-issuance compliance basis, the District shall create a plan to rectify any non-compliance within a reasonable time period. The District shall conduct another thorough review within six months of the annual review period to ensure that adequate steps have been taken in a timely basis to correct non-compliance.

Section 7.14 Retention of Documents

The District shall retain adequate records to substantiate compliance with its ongoing responsibilities under the tax code to support the continued qualification of the District's debt as tax-exempt debt. Such records may include basic records relating to the District's debt issuances, documentation evidencing the expenditure of proceeds, documentation evidencing the use of debt financed property by public and private entities, documentation evidencing all sources of payment or security for the debt, and documentation pertaining to any investment of proceeds.

Such records shall be kept for as long as the debt is outstanding, plus the period ending three years after the latest of the financial payment date of the debt or the final payment date of any obligations or series of bonds issued to refund directly or indirectly all of any portion of the debt. Such records shall be kept in hard copy or electronic format in accordance with Internal Revenue Service Rev. Proc. 97-22.