Board Policy

Debt Issuance And Management
BP 3470

The Governing Board 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. Any debt issued by the District shall be consistent with law and this policy.

This Debt Policy shall provide guidance for the issuance and management of all debt and lease financings of the District, together with credit, liquidity and other ancillary instruments and agreements secured or executed in connection with such transactions. While adherence to this Debt Policy is recommended in applicable circumstances, the District recognizes that changes in the capital markets, District programs and other unforeseen circumstances may produce situations that are not covered by the Debt Policy or require modifications or exceptions to achieve Debt Policy goals. In these cases, management flexibility is appropriate, provided specific authorization from the Board is obtained. The District may approve bonds and other related agreements the terms or provisions of which deviate from this Debt Policy, upon the recommendation and approval of the Chief Business Official, Superintendent or designee, as circumstances warrant. The failure by the District to comply with any provision of this Debt Policy shall not affect the validity of any debt that is otherwise duly authorized and executed.

The District shall not enter into indebtedness or liability with an annual requirement that in any year exceeds 7.5% of District income and revenue provided for such year, unless payment is from specifically pledged tax levy approved by voters, it is a cash flow financing of 13 months or less, or one of the exceptions specified in law applies. (California Constitution, Article 16, Section 18 and Article XIIIA)

When the Board determines that it is in the best interest of the District, the Board may issue debt or order an election to issue debt. The Chief Business Official, Superintendent or designee shall make recommendations to the Board regarding appropriate financing methods for capital projects or other projects that are authorized purposes for debt issuance. When approved by the Board and/or the voters as applicable, the Chief Business Official, Superintendent or designee shall administer and coordinate the District's debt issuance program and activities, including the timing of issuance, sizing of issuance, method of sale, structuring of the issue, and marketing strategies. Unless there is strong District credit, securities market or other economic or legal reason otherwise determined by the Chief Business Official, it is the intention of the District to sell general obligation bond or certificates of participation issues by competitive public sale.

The Chief Business Official, Superintendent or designee shall retain a registered municipal advisor, registered investment advisor, and other financial services professionals as applicable and 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. In the event that the District issues debt through a negotiated sale, underwriters may be selected for multiple transactions if multiple issuances are planned for the same project. In addition, the District shall select a legal team on an as-needed basis to assist with debt issuances or special projects.

Goals (Government Code 8855(i)(1)(D)

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 ensure that it:

1. Maintains accountability for the fiscal health of the District, including prudent management and transparency of the District's financing programs

2. If applicable, pursue 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. Takes all practical precautions and proactive measures to avoid financial decisions that will negatively impact current credit ratings on existing or future debt issues

4. Maintains effective communication with rating agencies and, as appropriate, credit enhancers such as bond insurers or other providers of credit or liquidity instruments in order to enhance the creditworthiness, liquidity, or marketability of the debt

5. Monitors 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, considers 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. Determines 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. Considers 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. Preserves 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. Meets the ongoing obligations and accountability requirements associated with the issuance and management of debt under state and federal tax and securities laws

Authorized Purposes for the Issuance of Debt (Government Code 8855(i)(1)(A))

The District may issue debt for any of the following purposes:

1. To pay for the cost of capital improvements, including acquiring, constructing, reconstructing, rehabilitating, replacing, improving, extending, enlarging, and/or equipping District facilities

2. To refund existing debt

3. To provide for cash flow needs

Pursuant to Government Code 53854, general operating costs, including, but not limited to, items normally funded in the District's annual operating budget, shall not be financed from debt payable later than 15 months from the date of issuance. The District may deem it desirable to finance cash flow requirements under certain conditions so that available resources better match expenditures within a given fiscal year. To satisfy both state constitutional and statutory constraints, such cash flow borrowing shall be payable from taxes, income, revenue, cash receipts, and other moneys attributable to the fiscal year in which the debt is issued.

Authorized Types of Debt (Government Code 8855(i)(1)(B))

The Chief Business Official, Superintendent or designee shall recommend to the Board potential financing method(s) that result in the highest benefit to the District, with the cost of staff and consultants considered. Potential financing sources may include:

1. Short-Term Debt

a. Short-term debt, such as tax and revenue anticipation notes (TRANs), when necessary to allow the District to meet its cash flow requirements (Government Code 53850-53858). To satisfy both State constitutional and statutory constraints, such cash flow borrowing must be payable from taxes, income, revenue, cash receipts and other moneys attributable to 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.

b. Bond anticipation notes (BANs) to provide interim financing for capital bond projects that will ultimately be paid from general obligation bonds (Education Code 15150) or special tax bonds issued pursuant to the Mello-Roos Community Facilities Act of 1982 (Government Code 53311-53368.3)

c. Grant anticipation notes (GANs) to provide interim financing pending the receipt of grants and/or loans from the state or federal government that have been appropriated and committed to the District (Government Code 53859-53859.08)

2. Long-Term Debt

a. General obligation bonds for projects approved by voters (California Constitution, Article XIIIA, Section 1; Education Code 15100-15262, 15264-15276; Government Code 53506-53509.5)

b. Special tax bonds issued pursuant to the Mello-Roos Community Facilities Act of 1982 (Government Code 53311-53368.3)

3. Lease financing, including certificates of participation (COPs)

a. Lease financing to fund the highest priority capital equipment purchases when pay-as-you-go financing is not feasible (Education Code 17450-17453.1)

b. Lease financing to fund facilities projects when 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)

4. Special financing programs or structures offered by the federal or state government, such as Qualified Zone Academy Bonds or other tax credit obligations or obligations that provide subsidized interest payments, when the use of such programs or structures is determined to result in sufficiently lower financing costs compared to traditional tax-exempt bonds and/or COPs

5. Temporary borrowing from other sources such as the County Treasurer

COPs, TRANs, 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)

6. In appropriate circumstances, the District may use one or more School Facility Improvement Districts as an alternative method of issuing general obligation bonds.

Relationship of Debt to District Facilities Program and Budget (Government Code 8855(i)(1)(C))

Decisions regarding the issuance of debt for the purpose of financing capital improvement shall be aligned with current needs for acquisition, development, and/or improvement of District property and facilities as identified in the District's facilities master plan or other applicable needs assessment, the projected costs of those needs, schedules for the projects, and the expected resources.

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.

1. Structure of Debt Issues

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 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. Principal amortization will be structured to meet debt repayment, tax rate, and flexibility goals.

For new money general obligation bond 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, 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.

To the extent practicable, the District shall also consider credit issues, market factors, and tax law when sizing the District's bond issuance. The sizing of refunding bonds shall be determined by the amount of money that will be required to cover the principal of, any accrued interest on, and any redemption premium for the debt to be paid on the call date and to cover appropriate financing costs.

Any general obligation bond issued by the District shall mature within 40 years of the issuance date or as otherwise required by law. (California Constitution, Article 16, Section 18; Government Code 53508.6)

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)

The District will not use interest rate swaps in connection with its debt program unless a separate swap policy is prepared and approved by the Board. The District may use derivative-like investment products to invest bond funds, but only upon staff’s analysis of the investment as part of the staff report transmitting the financing and specific approval as part of the Board action.

2. Method of Sale

For the sale of any District-issued debt, the Chief Business Official, Superintendent or designee shall recommend the method of sale with the potential to achieve the lowest financing cost and/or to generate other benefits to the District. Potential methods of sale include:

a. A competitive bidding process through which the award is based on, among other factors, the lowest offered true interest cost

b. Negotiated sale, subject to approval by the District to ensure that interest costs are in accordance with comparable market interest rates

c. Private placement sale, 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

3. Investment of Proceeds

The District shall actively manage the proceeds of debt issued for public purposes in a manner that is consistent with state 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 shall be the primary goal of any investment strategy, followed by the availability of funds and then by return on investment.

With regard to general obligation bonds, the District shall invest new money bond proceeds in the county treasury pool as required by law. (Education Code 15146)

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 ensure liquidity and minimize risk.

4. Refunding/Restructuring

The District may consider refunding or restructuring outstanding debt if it will be financially advantageous or beneficial for debt repayment and/or structuring flexibility. When doing so, the District shall consider the maximization of the District's expected net present value savings over the life of the debt issuance and, when using a general obligation bond to refund an existing bond, shall ensure that the final maturity of the refunding bond is no longer than the final maturity of the existing bond.

At a minimum, the District will seek to achieve net present value savings equal to at least 3% of the par amount of the bonds that are refunded. “Negative arbitrage” (the amount of additional funds that need to be deposited into a refunding escrow to make up for interest earnings being less than the interest on the defeased bonds through the escrow period) will be no greater than the amount of the net present value savings.

Internal Controls (Government Code 8855(i)(1)(E)

The Chief Business Official, 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 be vigilant in using bond proceeds in accordance with the stated purposes at the time such debt was incurred as defined in the text of the voter-approved bond measure. (Government Code 53410)

When feasible, the District shall issue debt with a defined revenue source in order to preserve the use of the general fund for general operating purposes.

In addition, the Chief Business Official, Superintendent or designee shall ensure that the District completes, as applicable, all performance and financial audits that may be required for any debt issued by the District, including State and federal disclosure requirements applicable to a particular transaction.

1. Records/Reports

At least 30 days prior to the sale of any debt issue or as soon as practicable following Board authorization of a debt issuance, the Chief Business Official, Superintendent or designee (or bond counsel on behalf of the District) shall submit a report of the proposed issuance to the California Debt and Investment Advisory Commission (CDIAC). To the extent applicable, such report shall include a self-certification that the District has adopted a policy concerning the use of debt that complies with law and that the contemplated debt issuance is consistent with that policy. (Government Code 8855)

Not later than 21 days after the sale of any debt issue, the Chief Business Official, Superintendent or designee (or bond counsel on behalf of the District) shall submit a report of final sale to the CDIAC. A copy of the final official statement for the issue shall accompany the report of final sale. If there is no official statement, the issuer shall provide each of the following documents, if they exist, along with the report of final sale:

a. Other disclosure document.

b. Indenture.

c. Installment sales agreement.

d. Loan agreement.

e. Promissory note.

f. Bond purchase contract.

g. Resolution authorizing the issue.

h. Bond specimen.

On or before January 31 of each year, the Chief Business Official, Superintendent or designee shall submit a report to the CDIAC regarding the debt authorized, the debt outstanding, and the use of proceeds during the reporting period from July 1 to June 30 of the prior fiscal year for debt issued on or after January 21, 2017. (Government Code 8855)

The Chief Business Official, Superintendent or designee shall provide initial and any annual or ongoing disclosures required by 17 CFR 240.10b-5 and 240.15c2-12 to the Municipal Securities Rulemaking Board, investors, and other persons or entities entitled to disclosure, and shall ensure that the District's disclosure filings are updated as needed.

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 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.

The Chief Business Official, Superintendent or designee shall maintain transaction records of decisions made in connection with each debt issuance, which may include 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, interest rates and cost of issuance on the day when the debt was sold ("final number runs"), and a post-pricing summary of the debt issue. In addition, documentation evidencing the expenditure of proceeds, the use of debt-financed property by public and private entities, all sources of payment or security for the debt, and investment of proceeds shall be kept for as long as the debt is outstanding, plus the period ending three years after 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, whichever is later.

The Chief Business Official, Superintendent or designee shall periodically report to the Board regarding debts issued by the District, which may include information on actual and projected tax rates, an analysis of bonding capacity, ratings on the District's bonds, market update and refunding opportunities, new developments for California bond financings, and the District's compliance with post-issuance requirements.

Adopted: [DATE]