BUSINESS

DEBT ISSUANCE AND MANAGEMENT

This Debt Issuance and Management Policy (**"Debt Policy"**) has been approved by the District's Governing Board in order to ensure compliance with Government Code Section 8855, as amended by Senate Bill 1029 effective January 1, 2017. References to codes, statutes and other legal provisions contained herein are provided solely for convenience, are subject to change and amendment, and shall not be deemed comprehensive or limiting. This Debt Policy may be amended by the Governing Board as it deems appropriate from time to time in the prudent management of the debt of the District.

Introduction

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.

The District shall not enter into indebtedness or liability that in any year exceeds the income and revenue provided for such year, unless two-thirds of the voters approve the obligation or one of the exceptions specified in law applies. (California Constitution, Article 16, Section 18)

When the Governing Board determines that it is in the best interest of the District, the Governing Board may issue debt or order an election to issue debt. The Superintendent or designee shall make recommendations to the Governing Board regarding appropriate financing methods for capital projects or other projects that are authorized purposes for debt issuance. When approved by the Governing Board and/or the voters as applicable, the 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.

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. 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

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. Attains 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 any financial decision 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

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

The Superintendent or designee shall recommend to the Governing 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)

   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)

   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: 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.

   a. General obligation bonds for projects approved by voters (California Constitution, Article 13A, 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) and lease revenue bonds

    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; 17456)

    c. If and when proceeds of voter approved debt become available subsequently, the District may use such proceeds to pay off the financing where appropriate.

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 or revenue bonds

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)

Refinancing or restructuring of outstanding debt is addressed below under the heading "Refunding/Restructuring."

<u>Relationship of Debt to District Facilities Program and Budget</u>

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 facilities needs assessment or documentation, the projected costs of those needs, schedules for the projects, and the expected resources.

When considering a debt issuance, the Governing Board and the Superintendent or designee shall evaluate both the short-term and long-term implications of the debt issuance and additional operating costs associated with the new projects involved. Such evaluation may include, but is not limited to, the projected ratio of annual debt service to the tax burden on the District's taxpayers and the ratio of annual debt service secured by the general fund to general fund expenditures.

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 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. Derivative products, including swaps, are not permitted to be used by the District.

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. Specifically, the overall debt burden of the district will not exceed 1.25% of the district's then current assessed value and the tax rate required to repay bond debt service coming due under a Proposition 39 authorization will not exceed $30 per $100,000 of assessed value for bonds approved under each respective bond measure.

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. Specifically, bond year net annual debt service for each authorization under Proposition 39 will not exceed projected target maximum revenues for such authorization when such projected maximum revenues are calculated at $30 per $100,000 of assessed value in the current year and allowed to increase annually at 4%. The District is prohibited from issuing variable rate debt.

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 Governing 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 15102, 15106, 15268 or 15270, as applicable.

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.

To the extent possible, the District will structure GO debt with a 30 year maturity term to reduce overall borrowing costs. All bonds issued by the District shall mature within 35 years of the issuance date. The District may consider a separate series of bonds to fund projects with an average useful life of less than 10 years.

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.

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). 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. 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.

Method of Sale

For the sale of any District-issued debt, the 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:

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

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

3. 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

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.

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 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.

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.

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 be vigilant in ensuring that bond or other proceeds are only expended in accordance with the stated purposes at the time such debt was incurred as defined in the text of the voter-approved bond measure or other governing document. This includes maintaining records of draws on said proceeds which identify the purpose and payee of said draw (Government Code 53410)

The policy of the District is to comply with all federal tax and securities laws which may be applicable to its debt, which may include requirements relating to arbitrage, rebate and continuing disclosure. Reviews of such requirements in connection with prior and new debt issues may be conducted by general legal counsel or bond counsel. Any district personnel involved in conducting such reviews may receive periodic training regarding their responsibilities as needed.

In addition, the 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 disclosure requirements applicable to a particular transaction.

Records/Reports

At least 30 days prior to the sale of any debt issue, the Superintendent or designee shall submit a report of the proposed issuance to the California Debt and Investment Advisory Commission (CDIAC). 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)

On or before January 31 of each year, the Superintendent or designee shall submit a report to the CDIAC regarding the debt authorized, the debt outstanding, and the use of proceeds of the issued debt for the period from July 1 to June 30. (Government Code 8855)

The 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 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. 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 Superintendent or designee shall from time to time report to the Governing Board regarding debts issued by the District, which reports may include a review of this policy, information on actual and projected tax rates, an analysis of bonding capacity, ratings on the District's bonds, market update and refunding opportunities, new development for California bond financings, and the District's compliance with post-issuance requirements.

Review and Update

This policy will be reviewed by the Superintendent or designee on at least an annual basis and in connection with each bond issuance. Amendments will be proposed to the Board as necessary. No new issue will close that is in violation of this policy or while the district is in violation of this policy.

Policy Adopted: June 6, 2017