

# **SAN LORENZO UNIFIED SCHOOL DISTRICT BOARD POLICY**

**Business and Non-Instructional Operations**

BP 3470 (a)

## **DEBT ISSUANCE AND MANAGEMENT**

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.

*(cf. 3000 - Concepts and Roles)*

*(cf. 3460 - Financial Reports and Accountability)*

*(cf. 7110 - Facilities Master Plan)*

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 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 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 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.

*(cf. 3312 - Contracts)*

*(cf. 3600 - Consultants)*

*(cf. 9270 - Conflict of Interest)*

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### **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 practical precautions and proactive measures to avoid financial decisions that could 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 is not 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

*(cf. 0000 - Vision)*

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## **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

*(cf. 3100 - Budget)*

*(cf. 3110 - Transfer of Funds)*

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 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)

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2. 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)
3. Lease financing, including certificates of participation (COPs)
  - a. Lease financing to fund 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)
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 lower financing costs compared to traditional tax-exempt bonds, COPs, and/or revenue bonds; other types of financing methods including special tax bonds issued pursuant to the Mello-Roos Community Facilities Act of 1982 (Government Code 53311-53368.3) or bonds issued pursuant to the Marks-Roos Local Bond Polling Act of 1985 (Government Code 6584-6599.1)
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)

### **Relationship of Debt to District Facilities Program and Budget**

Decisions regarding the issuance of debt for the purpose of financing capital improvement shall be aligned with 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.

When considering a debt issuance, the Board and the Superintendent or designee may 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.

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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.

## **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 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 Codes 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.

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 consistent with State law

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### **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 method of sale, in which the issuer solicits bids from underwriting firms to purchase its bonds, and sells bonds to the firm or bond syndicate offering the lowest interest rate bid
2. A negotiated method of sale, in which the issuer selects the underwriting firm or firms in advance of the proposed sale and the final purchase price is negotiated at the time designated for the sale of bonds
3. A private placement sale method of sale, in which the issuer sells bonds directly to a single or limited number of purchasers without a public offering

### **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.

*(cf. 3430 - Investing)*

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.

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### **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.

*(cf. 3314 - Payments for Goods and Services)*  
*(cf. 3400 - Management of District Assets/Accounts)*

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 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 the official transcript for the financing, including documentation evidencing the expenditure of proceeds, the use of debt-financed property by public and private entities, the sources of payment or security for the debt, and investment of proceeds, which 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

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series of bonds issued to refund directly or indirectly all of any portion of the debt, whichever is later.

### **Exceptions and Modifications**

The District acknowledges that the capital marketplace fluctuates, municipal finance products change from time to time, and that issuer and investor supply and demand vary. These fluctuations may produce situations that are not anticipated or covered by this policy. As such, the Governing Board may make exceptions or modifications to this policy to achieve the debt management goals outlined above. Management flexibility is appropriate and necessary in such situations, provided specific authorization is granted by the Governing Board.

### **Policy Development**

The Superintendent or designee may develop additional specific elements of a debt management framework through rules and regulations which, along with this policy, shall be reviewed periodically in consideration of changing laws, District needs and market conditions.

#### *Legal Reference:*

##### EDUCATION CODE

5300-5441 *Conduct of elections*

15100-15262 *Bonds for school districts and community college districts*

15264-15276 *Strict accountability in local school construction bonds*

15278-15288 *Citizen's oversight committees*

15300-15425 *School Facilities Improvement Districts*

17150 *Public disclosure of non-voter-approved debt*

17400-17429 *Leasing of district property*

17450-17453.1 *Leasing of equipment*

17456 *Sale or lease of district property*

17596 *Duration of contracts*

42130-42134 *Financial reports and certifications*

##### ELECTIONS CODE

1000 *Established election dates*

##### GOVERNMENT CODE

8855 *California Debt and Investment Advisory Commission*

53311-53368.3 *Mello-Roos Community Facilities Act*

53410-53411 *Bond reporting*

53506-53509.5 *General obligation bonds*

53550-53569 *Refunding bonds of local agencies*

53580-53595.55 *Bonds*

53850-53858 *Tax and revenue anticipation notes*

53859-53859.08 *Grant anticipation notes*

##### CALIFORNIA CONSTITUTION

Article 13A, Section 1 *Tax limitation*

Article 16, Section 18 *Debt limit*

##### UNITED STATES CODE, TITLE 15

78o-4 *Registration of municipal securities dealers*

##### UNITED STATES CODE, TITLE 26

54E *Qualified Zone Academy Bonds*

##### CODE OF FEDERAL REGULATIONS, TITLE 17

240.10b-5 *Prohibition against fraud or deceit*



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*240.15c2-12 Municipal securities disclosure*  
CODE OF FEDERAL REGULATIONS, TITLE 26  
*1.103 Interest on state and local bonds*  
*1.141 Private activity bonds*  
*1.148 Arbitrage and rebate*  
*1.149 Hedge bonds*  
*1.6001-1 Records*

### *Management Resources:*

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION PUBLICATIONS  
*California Debt Issuance Primer*  
GOVERNMENT FINANCE OFFICERS ASSOCIATION PUBLICATIONS  
*An Elected Official's Guide to Debt Issuance, 2nd Ed., 2016*  
*Understanding Your Continuing Disclosure Responsibilities, Best Practice, September 2015*  
*Investment of Bond Proceeds, Best Practice, September 2014*  
*Selecting and Managing Municipal Advisors, Best Practice, February 2014*  
*Debt Management Policy, Best Practice, October 2012*  
*Analyzing and Issuing Refunding Bonds, Best Practice, February 2011*  
INTERNAL REVENUE SERVICE PUBLICATIONS  
*Tax Exempt Bond FAQs Regarding Record Retention Requirements*  
*Tax-Exempt Governmental Bonds, Publication 4079, rev. 2016*  
U.S. GOVERNMENT ACCOUNTABILITY OFFICE PUBLICATIONS  
*Internal Control System Checklist*  
WEB SITES  
*California Debt and Investment Advisory Commission: <http://www.treasurer.ca.gov/cdiac>*  
*Government Finance Officers Association: <http://www.gfoa.org>*  
*Internal Revenue Service: <https://www.irs.gov>*  
*Municipal Security Rulemaking Board, Electronic Municipal Market Access (EMMA):  
<http://www.emma.msrb.org>*  
*U.S. Government Accountability Office: <http://www.gao.gov>*  
*U.S. Securities and Exchange Commission: <https://www.sec.gov>*