

ROMOLAND SCHOOL DISTRICT DEBT MANAGEMENT POLICY

SECTION I: PURPOSE OF DEBT POLICY

Romoland Elementary School District (hereinafter "the District") invests in long-term infrastructure, community and economic development, or otherwise incurs debt to meet its Debt Financing Objectives as defined herein. The use of long-term debt and other types of financing obligations addressed in this Statement of Debt Policy (the "Policy") are considered an appropriate funding source or mechanism for the development and management of capital assets and other funding needs of the District to meet its Debt Financing Objectives. Debt is only one source of funding and the District actively seeks other funding sources as appropriate to its needs and opportunities.

The Board of Trustees serves as the governing body of the District, the Romoland School District Public Financing Authority, and community facilities districts which the District may form from time to time, and any additional entities the District may form under law in the future. Further reference to the "District," or the "Board of Trustees" as the governing body, or the applicability of the Policy hereinafter, shall also be inclusive of such entities.

The intended purpose of this Policy is to provide guidelines for the issuance and administration of bonds and other forms of indebtedness as well as ensure compliance by the District with applicable laws and regulations including state law (such as SB 1029), tax code (IRS), and securities regulations related to the incurrence of such debt or other obligations addressed herein.

Primary responsibility for debt management resides with the Chief Business Official or his/her designee (the "Responsible Officer") with assistance of Business Services Department staff. Debt is issued with the approval of the Superintendent or his/her designee in consideration of the appropriate use of such debt instrument in meeting the District's Debt Financing Objectives and compliance with this Policy. In accordance with State law, approval by the Board of Trustees is required for any debt issuance.

SECTION II: DEBT FINANCING OBJECTIVES

The District's Debt Financing Objectives are defined as follows:

- Promote and enhance the safety, welfare or betterment of the District and its students consistent with the District's Mission Statement, Core Values, Goals and Vision;
- Ensure that all debt is structured in order to protect both current and future taxpayers, and constituents of the District;
- Maintain or enhance the District's sound financial position;
- Ensure that the incurrence of such debt is consistent with the District's planning goals and objectives, capital improvement program or budget, as applicable.

SECTION III: DEBT LIMITS

A. PURPOSE AND NEED FOR FINANCING

There are three primary purposes for which the District may incur or issue debt or other obligations:

1. Long-Term Capital Improvements

Generally, the District will employ a conservative strategy relative to the use of debt financing for approved and budgeted capital improvement projects including but not limited to when such projects' useful life will equal or exceed the term of the financing (and are otherwise in accordance with federal tax law guidance), and when resources are identified as sufficient to fund the debt service requirements. It is the goal of the District to ensure that the cost of capital improvements be balanced between current and future students, taxpayers, or other applicable constituents. Prior to the incurrence of such obligations, the Board of Trustees would be presented with a summary of project costs, alternative sources of funding, and an estimate of any incremental operating and/or additional maintenance costs associated with the project and identify sources of revenue, if any, to pay for such incremental costs.

2. Essential Equipment Needs

In addition to capital improvement projects, the District from time to time finances certain essential equipment. These assets may range from vehicles, solar energy facilities, security systems to information technology systems. Short-term financings, including loans and capital lease purchase agreements, are executed to meet such needs.

3. Refinancings/Refunding of Existing Debt

The Responsible Officer will periodically evaluate its existing debt and execute refinancings in accordance with Section IV herein.

B. TYPES OF DEBT

Generally the primary types of debt to be incurred by the District are as summarized below, but the list below does not preclude the District from issuing or incurring other types of obligations eligible under applicable federal and state law as may change from time to time, and which enable the District to meet its Debt Financing Objectives.

1. General Obligation Bonds

General Obligation (GO) bonds are secured either by a pledge of full faith and credit of an issuer or by a promise to levy taxes in an unlimited amount as necessary to pay debt service, or both. GO bonds usually achieve lower rates of interest than other financing instruments since they are considered to be a lower risk. The California Constitution, Article 13A, Sections 1(b)(2) and 1(b)(3), Education Code 15100-15262 and 15264-15276, and Government Code 53506-53509.5 authorize the district to issue general obligation bonds requiring either two-thirds voter approval or 55 percent voter approval, subject to specific

accountability requirements. Voter-approved general obligation bonds typically provide the lowest cost of borrowing and, by providing for the levy of additional ad valorem property taxes to service the debt, do not impact the district's general fund. Uses of bond proceeds are limited to the acquisition and improvement of real property.

2. Certificates of Participation / Lease Revenue Bonds

Certificates of Participation (COPs) and Lease Revenue Bonds (LRBs) are obligations secured by a lease-back arrangement between the District and another public entity, where the District agrees to annually budget and appropriate the lease payments from its General Fund so long as the District has the beneficial use and/or occupancy of the property to be leased and lease payments may not be accelerated. The lease payments are assigned to a trustee and used to pay debt service on the LRBs or COPs. These obligations do not constitute indebtedness under the state constitutional debt limitation and, therefore, are not subject to voter approval. Lease financing requires the fair market rental value of the leased property to be equal to or greater than the required debt service or lease payment schedule.

3. Land District Financing

The District may from time to time, on a case-by-case basis form land-secured financing districts known as Community Facilities Districts ("CFDs"). Such districts are typically developer initiated, whereby a developer seeks a public financing mechanism to fund school facilities and public infrastructure subject to terms of a school mitigation agreement approved by the District. Land district formation may also be initiated by an established community through a registered voter election. Subject to landowner or registered voter approval as applicable, once a district is formed, special taxes may be levied upon properties within the district to pay for facilities or to repay bonds issued to finance schools and public improvements.

The District will consider requests for land district formation and debt issuance when such requests address a public need or provide a public benefit. In accordance with the Mello-Roos Community Facilities Act of 1982, the District is required and has adopted Local Goals and Policies related to CFD financing (the "CFD Local Goals and Policies"). The District's CFD Local Goals and Policies, currently in effect and as they may be amended from time to time, are incorporated to this Policy by reference herein.

4. Marks-Roos Bonds

The Marks-Roos Local Bond Pooling Act of 1985 permits two or more public agencies to form a joint powers authority (JPA) to facilitate the financing of public capital improvements, "pool" bond issues of similar credit structure, working capital, or other projects when use of these provisions results in savings in effective interest rate, bond underwriting and issuance costs, or any other significant public benefit can be realized. The District has issued Marks-Roos bonds through the Romoland School District Public Financing Authority as a pool of CFD refunding obligations of the District.

5. Tax and Revenue Anticipation Notes

Tax and Revenue Anticipation Notes (TRANS) are short-term notes, proceeds of which allow a school district to cover the periods of cash shortfalls resulting from a mismatch between timing of revenues and timing of expenditures on an as-needed basis. As tax payments and other revenues are received, they are used to repay the TRANS. TRANS are not deemed to result in the creation of debt and voter approval is not required.

6. Bond Anticipation Notes

Bond Anticipation Notes (BANs) are short-term interest-bearing bonds issued in the anticipation of long-term future bond issuances. The District may choose to issue BANs as a source of interim financing when it is considered to be prudent and advantageous to the District and would be considered on a case-by-case basis.

7. Lease-Purchase Financings

From time to time, the District may consider lease-purchase financing for certain capital and equipment needs. The lease purchase terms are typically shorter term and relate to the useful life of the asset. Such arrangements do not require voter approval.

C. DEBT LIMITS

1. General Limits

Generally debt service coverage limitations shall be established in the indenture or other financing agreement, or by State statute as may be applicable and shall be evaluated based on market access, credit rating implications, cost and terms on a case-by-case basis.

2. General Fund Supported Debt

Generally if accessing the public sale capital markets, the District shall strive to maintain aggregate annual debt service paid from the District's general fund at an amount that, at the time of issuance, would maintain an investment grade rating for such District obligations as provided by at least one of the major credit rating agencies recognized as such in the then current municipal market.

SECTION IV: DEBT STRUCTURING & ISSUANCE PRACTICES

The District manages its overall debt structure to appropriately balance risk and cost of capital and to provide for long-term financial resilience, market access, credit rating, and capacity for future capital needs. To this end, the District generally issues debt that is fixed rate.

A. FIXED RATE DEBT

Generally, the District will issue debt or otherwise incur obligations on a fixed rate basis with term of the financing not exceeding the useful life of the project or asset to be financed (and otherwise within federal tax law guidelines). The District prefers to have an optional call on maturities longer than ten years in order to accommodate opportunities for economic refundings or to facilitate the restructuring of debt. Generally, the District prefers to limit the use of make-whole calls to maturities of less than ten years.

B. VARIABLE RATE DEBT

Generally, the District does not issue variable rate debt except that the District may issue obligations with shorter-term maturities that include such features, including commercial paper and grant, revenue and bond anticipation notes, (i) to provide interim financing for capital projects in anticipation of the issuance of longer-term bonds, or (ii) to purchase, refund or otherwise restructure or refinance outstanding bonds in the event that, for example, longer term markets are inaccessible.

C. USE OF DERIVATIVES & SWAPS

Generally, the District does not utilize municipal products that are classified as derivatives. As used in public finance, derivatives may take the form of interest rate swaps, futures and options contracts, options on swaps and other hedging mechanisms such as rate locks. In the event that the District may consider the use of such instruments, the Responsible Officer, together with the District's municipal advisor, will prepare a summary report for the Board of Trustees that addresses:

- Why the use of such derivative product for such financing approach is appropriate or advisable instead of applicable alternative approaches;
- A summary of the risks in implementing such financing approach (including quantifying such risks as determinable);
- A summary of the conditions under which the implementation of such financing approach could negatively impact the applicable credit rating of the District;
- A determination if the implementation of such financing approach necessitates the adoption of a comprehensive derivatives policy by the Board of Trustees.

D. PUBLIC DEBT VS. PRIVATE PLACEMENTS

The District generally uses public offerings to issue long-term debt. However, the District may use Direct or Private Placement Debt - which are non-public offerings. These may be secured by the same credit as any other form of District obligations so long as all provisions of State law and outstanding bond covenants are met. Considerations for Direct or Private Placement Debt are market access, cost and terms, which will be evaluated relative to alternative applicable approaches by the Responsible Officer.

E. CAPITALIZED INTEREST

The District may issue bonds to pay for interest during construction pursuant to any statutory or federal tax limitations if applicable, rating agency requirements, and/or to the extent deemed prudent to match revenues to debt service payments.

F. DEBT SERVICE RESERVE FUNDS

The District may issue bonds that are secured by amounts on deposit in or credited to a debt service reserve fund or account in order to minimize the net cost of borrowing and/or to provide additional reserves for debt service or other purposes. Debt service reserve funds may secure one or more issues of bonds, and may be funded by proceeds of bonds, other available moneys of the District, and/or by surety policies, letters or lines of credit, or other similar instruments in accordance with the indenture or other relevant debt instrument. As relates to the use of surety policies, letters or lines of credit or other similar instruments for this purpose, the District shall take into consideration, in advance of the issuance of the applicable bonds, the likely remedial strategies in the event of a material decline in the applicable provider's credit quality. If the District is unlikely to be able to secure replacement credit support or an alternate credit facility due to market or other conditions, the District shall make provisions in applicable bond structures to address such risks whenever practicable.

G. THIRD PARTY CREDIT ENHANCEMENT

The District may secure credit enhancement for its bonds from third-party credit providers to the extent such credit enhancement is available upon reasonable, competitive, and cost-effective terms. Such credit enhancement may include municipal bond insurance, letters of credit and lines of credit, as well as other similar instruments. Generally, credit enhancement providers shall be selected on a competitive basis whenever possible.

All or any portion of an issue of bonds may be secured by bond insurance provided by municipal bond insurers if it is economically advantageous to do so, or if it is otherwise deemed necessary or desirable in connection with a particular issue of bonds. The relative cost or benefit of bond insurance may be determined by comparing the amount of the bond insurance premium to the present value of the estimated interest savings to be derived as a result of the insurance.

The issuance of certain types of bonds may require a letter of credit or credit facility from a commercial bank or other qualified financial institution to provide liquidity and/or credit support. Generally a letter of credit may be either a "direct pay letter of credit" or a "standby letter of credit." A direct pay letter of credit entitles the trustee to draw on the letter of credit for all debt service payments, and moneys that would otherwise be available to pay debt service are used to reimburse the bank. A standby letter of credit entitles the trustee only to draw on the letter of credit in the event moneys available to pay debt service are insufficient.

The types of bonds where a credit facility may be necessary include commercial paper, variable rate bonds with a tender option, and bonds that could not receive an investment grade credit rating in the absence of such a facility. The District shall take into consideration, in advance of the issuance of such bonds, the likely remedial strategies in the event of a material decline in the applicable provider's credit quality. If the District is unlikely to be able to secure replacement credit support or an alternate credit facility due to market or other conditions, the District shall make provisions in applicable bond structures to address such risks whenever practicable.

H. METHOD OF BOND SALE

Bonds can be sold through either a negotiated or competitive process. Under a negotiated process, one or more investment banks are chosen in advance to manage the sale of bonds at a negotiated price. Under a competitive sale, banks bid on a bond offering and the sale is awarded to the bank offering the lowest interest rate.

The District generally utilizes a negotiated sales process, because such approach provides the following benefits:

- Utilization of investment banking resources for little or no extra cost on an on-going basis;
- Pre-marketing which may be useful for a unique or complex credit story;
- Flexible timing and ability to adjust structure to meet market demand.

Generally, the District will utilize a municipal advisor to assist with the method of sale, selection and negotiation of the investment banking firm or team, its fees and benchmark the overall pricing.

I. REFUNDING BONDS

The District shall monitor interest rates and looks for opportunities to refund debt for savings. Generally, savings targets are based on the net present value savings for the refunding of the bonds being refunded, inclusive of transaction costs. Generally, the District seeks to achieve not less than 3% net present value savings from refundings, however may consider a stricter standard of not less than 5% in circumstances where a proposed refunding may be considered on an advance basis. The savings target does not necessarily apply in cases where the District wishes to refund bonds to revise key bond covenants or refunding otherwise benefits the District absent such savings.

J. AB 182 CONFORMANCE & DISCLOSURE COMPLIANCE

In 2013, the California State legislature passed AB 182 to address certain implementation aspects of GO debt obligations by school districts perceived as overburdening taxpayers. This legislation placed certain limits on the use of compounding interest bonds and created more transparency regarding financing structures. In compliance with AB 182, in the event the District issues GO bonds which feature compounding interest bonds, the District shall have its municipal advisor present a report to the Board of Trustees that includes:

- Analysis of total overall cost of the bonds that allow for compounding interest
 - Compounding interest bonds (such as Capital Appreciation Bond's) must be sold with minimum 10-yr optional redemption feature, maximum term of 25 years, & the repayment ratio (total debt service divided by principal) shall not exceed 4:1 (incorporating assessed valuation projections).
- Comparison to the overall cost of issuing current interest bonds only.
- The reason bonds that allow compounding interest are proposed to be issued and sold.
- A copy of the underwriter's Rule G-17 Disclosure (as required by the Municipal Securities Rulemaking Board)

SECTION V: DEBT MANAGEMENT PRACTICES

A. INVESTMENT OF BOND PROCEEDS

Bond proceeds and funds held in debt service and debt service reserve fund accounts with respect to outstanding bonds shall be invested in accordance with the terms and/or within parameters defined in applicable resolutions or financing agreements of a particular obligation.

B. CONTINUING DISCLOSURE COMPLIANCE

The District's Responsible Officer shall oversee and, advised by the District's disclosure counsel and consultants the District may hire to assist, shall be responsible for the filing and accuracy of all primary and secondary disclosure regarding the District and its debt obligations. Reasonable actions shall be taken to obtain timely knowledge of any event that must be disclosed pursuant to the District's "disclosure undertakings" and shall cause notices of such events to be filed in a timely manner as required by such disclosure undertakings.

The District will comply with the requirements of all of its "disclosure undertakings," including compliance with SEC rule 15c2-12, by filing or causing to be filed annually its disclosure statements and audited financials (as applicable) with the Electronic Municipal Market Access ("EMMA") or as otherwise established in the District's financing agreements.

The District will comply with the event notice reporting requirements of its disclosure undertakings and timely file with EMMA all required event notices. The District will engage disclosure counsel and/or consultants as needed to guide its primary and secondary market disclosure, and to prepare material event notices as necessary.

For each of the District's disclosure undertakings, the District shall establish and employ a dissemination agent. Disclosure shall be posted electronically on EMMA by the dissemination agent.

Additionally, the District's Responsible Officer shall maintain (or engage a consultant to maintain) a current list of all obligations for which the District has a continuing disclosure reporting obligation, and maintain a summary for each such obligation of the following:

- Material event notification requirements and timing;
- Annual Report content requirements and timing.

District staff that are designated as responsible for the preparation and dissemination of the District's required continuing disclosure obligations shall receive appropriate training on a periodic basis regarding the requirements and practices of applicable regulatory bodies concerning disclosure relating to the District.

C. POST-ISSUANCE TAX COMPLIANCE PROCEDURES

The purpose of this section is to establish policies and procedures in connection with tax-exempt bonds and other tax-advantaged bonds issued by or on behalf of the District so as to ensure that the District complies with all applicable post-issuance requirements of federal income tax law needed to preserve the tax-exempt or other advantaged status of the bonds.

1. Post-Issuance Compliance Requirements

a. External Advisors / Documentation

The Responsible Officer shall consult with bond counsel and other legal counsel and advisors, as needed, throughout the bond issuance process to identify requirements and to establish procedures necessary or appropriate so that the bonds will continue to qualify for the appropriate tax status. Those requirements and procedures shall be documented in the District's resolution(s), bond documents such as indentures and trust agreements, tax certificate(s) and/or other documents finalized at or before issuance of the bonds. Those requirements and procedures shall include future compliance with applicable arbitrage rebate requirements and all other applicable post-issuance requirements of federal tax law throughout (and in some cases beyond) the term of the bonds.

The Responsible Officer also shall consult with bond counsel and other legal counsel and advisors, as needed, following issuance of the bonds to ensure that all applicable post-issuance requirements in fact are met. This shall include, without limitation, consultation in connection with future contracts with respect to the use of bond-financed assets and future contracts with respect to the use of output or throughput of bond-financed assets.

The District shall engage an experienced Arbitrage Rebate Compliance Service Provider (each a "Rebate Service Provider") to assist in compliance of all IRS arbitrage rebate requirements.

b. Role of the District as Bond Issuer

Unless otherwise provided, unexpended bond proceeds shall be held by the trustee or fiscal agent, and the investment of bond proceeds shall be managed by such trustee or fiscal agent at the direction of the Responsible Officer or his/her designee. The trustee or fiscal agent shall maintain records and shall prepare regular, periodic statements to the District regarding the investments and transactions involving bond proceeds.

c. Arbitrage Rebate and Yield

Proceeds from bonds issued by or on behalf of the District are generally held and invested by the trustee or fiscal agent. Notwithstanding the foregoing, the District, as the entity responsible for yield restriction and rebate compliance as to the bonds, shall take all actions necessary to coordinate with the trustee and, when applicable, engage the services of a Rebate Service Provider to perform the calculation of arbitrage rebate liability, prepare all related reports, and ensure arbitrage compliance with respect to the investment of bond proceeds for each applicable bond issue. The District shall retain copies of all arbitrage reports, investment and expenditure records, and trustee statements as described below under "Record Keeping Requirements."

The Responsible Officer shall periodically review the investment rates on bond proceeds, as compared to the arbitrage yield on each applicable issue of the bonds, and, if necessary, set aside amounts expected to be needed to ensure timely payment of required rebate for each issue of the bonds, which timelines are (a) no later than 60 days after each 5-year anniversary of the issue date of each issue of the Bonds, and (b) no later than 60 days after the last bond of each issue is redeemed.

During the construction period of each capital project financed in whole or in part by bonds, the Responsible Officer shall monitor the investment and expenditure of bond proceeds and shall coordinate or consult with, if necessary, the trustee and/or a Rebate Service Provider, to determine whether such Bond issue is eligible for any exception from the arbitrage rebate requirements during each 6-month spending period up to 6 months, 18 months or 24 months, as may be set forth in the tax certificate that is executed in connection the applicable bonds.

d. Allocation of Bond Proceeds

Within the proper timelines, which are currently no later than 18 months after expenditure or the project's placed in service date, but in no event after 5 years from the date of issuance of the applicable issue of new money bonds, the District will allocate bond proceeds to expenditures for rebate and private use purposes.

e. Use of Bond Proceeds

The Responsible Officer shall:

- Monitor the use of bond proceeds, the use of bond-financed assets (e.g., facilities, furnishings or equipment) and the use of output or throughput of bond-financed assets throughout the term of the bonds (and in some cases beyond the term of the bonds) to ensure compliance with covenants and restrictions set forth in applicable District resolutions, bond documents and tax certificates;
- Maintain records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of bonds;
- Consult with bond counsel and other professional expert advisers in the review of any contracts or arrangements involving use or sale of bond-financed facilities to ensure compliance with all covenants and restrictions set forth in applicable District resolutions and tax certificates;
- Maintain records for any contracts or arrangements involving the use or sale of bond-financed facilities as might be necessary or appropriate to document compliance with all covenants and restrictions set forth in applicable District resolutions and tax certificates; and
- Meet periodically with personnel responsible for bond-financed assets to identify and discuss any existing or planned use or sale of bond-financed, assets or output or throughput of bond-financed assets, to ensure that those uses are

consistent with all covenants and restrictions set forth in applicable District resolutions, bond documents and tax certificates.

All relevant records and contracts shall be maintained as described below.

2. Record Keeping Requirements

Unless otherwise specified in applicable District resolutions, bond documents or tax certificates, the District shall maintain the following documents for the term of each issue of bonds (including refunding bonds, if any) plus at least three years:

- a copy of the bond closing transcript(s) and other relevant documentation delivered to the District at or in connection with closing of the issue of bonds;
- a copy of all material documents relating to capital expenditures financed or refinanced by bond proceeds, including (without limitation) construction contracts, purchase orders, invoices, trustee requisitions and payment records, as well as documents relating to costs reimbursed with bond proceeds and records identifying the assets or portion of assets that are financed or refinanced with bond proceeds;
- a copy of all contracts and arrangements involving private use of bond-financed assets or for the private use of output or throughput of bond-financed assets; and
- copies of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee statements.

SECTION VI: WAIVER AND PERIODIC REVIEW

While adherence to the Debt Policy is desired, the District recognizes that changes in the capital markets and other circumstances of the District may produce unforeseen situations that are not covered by the Debt Policy. In those circumstances, exceptions or waivers to the Debt Policy may be required with approval from the District Council in connection with individual financings in order to achieve the District's Debt Financing Objectives.

The Responsible Officer shall review this Debt Policy on a periodic basis, and recommend any changes to the Board of Trustees for its consideration and approval.