Debt Issuance and Management

Adopted: 02/07/2017 **| Last Revised**: n/a **| Last Reviewed**: 04/02/2024

The Board of Education 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.

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.

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 are 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.

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 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
    b. Bond anticipation notes (BANs) to provide interim financing for capital bond projects that will ultimately be paid from general obligation bonds
    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
2. Long-Term Debt
    a. General obligation bonds for projects approved by voters including general obligation bonds issued on behalf of school facilities improvement districts established by the district.
    b. Special tax bonds issued pursuant to the Mello-Roos Community Facilities Act of 1982
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
    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
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 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.

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.

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 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.

The final maturity of equipment or real property lease obligations will be consistent with state law.

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 method of sale, in which the issuer sells bonds directly to a single or limited number of purchasers without a public offering

Investment of Proceed

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.

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.

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 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.

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.

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.

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, 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 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 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 Board.

Policy Reference Disclaimer:

These references are not intended to be part of the policy itself, nor do they indicate the basis or authority for the Board to enact this policy. Instead, they are provided as additional resources for those interested in the subject matter of the policy.

Legal References:

STATE

CA CONSTITUTION
Article 13A, Section 1 Tax limitation
Article 16, Section 18 Debt limit

EDUCATION CODE
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 school buildings
17450-17453.1 Leasing of equipment
17456 Sale or lease of district property
17596 Limit on continuing contracts
42130-42134 Financial reports and certifications
5300-5441 Conduct of elections

ELECTION CODE

1000 Established election dates
CA GOVERNMENT CODE
53311-53368.3 Mello-Roos Community Facilities Act of 1982
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
8855 California Debt and Investment Advisory Commission
FEDERAL
15 USC 78o-4 Registration of municipal securities dealers
17 CFR 240.10b-5 Prohibition against fraud or deceit
17 CFR 240.15c2-12 Municipal securities disclosure
26 CFR 1.6001-1 Records
26 USC 54E Qualified Zone Academy Bonds
MANAGEMENT RESOURCES
CDIAC PUBLICATION
California Debt Issuance Primer
GOV. FINANCE OFFICERS ASSOCIATION PUBLICATION
Refunding Municipal Bonds, Best Practice, March 2019
Debt Management Policy, Best Practice, March 2020
Investment and Management of Bond Proceeds, Best Practice, March 2022
Selecting and Managing Municipal Advisors, Best Practice, February 2014
An Elected Official's Guide to Debt Issuance, 3rd Ed., 2008
Understanding Your Continuing Disclosure Responsibilities, Best Practice, March 2020
INTERNAL REVENUE SERVICE PUBLICATION
Tax Exempt Bond FAQs Regarding Record Retention Requirements
Tax-Exempt Governmental Bonds, Publication 4079, rev. 2016
U.S. GOVERNMENT ACCOUNTABILITY PUBLICATION
Internal Control System Checklist
WEBSITE
CSBA District and County Office of Education Legal Services https://legalservices.csba.org/
U.S. Securities and Exchange Commission http://www.gao.gov/
U.S. Government Accountability Office http://www.gao.gov/
Municipal Security Rulemaking Board, Electronic Municipal Market Access (EMMA) http://www.emma.msrb.org/
California Debt and Investment Advisory Commission http://www.treasurer.ca.gov/cdiac
Government Finance Officers Association http://www.gfoa.org/
Internal Revenue Service http://www.irs.gov/

Policy Adopted: 02/07/2017
Reviewed: 04/02/2024