

Business and Noninstructional Operations**DEBT MANAGEMENT**

The Governing Board recognizes the importance of adopting a sound, transparent and comprehensive debt policy in order to support its strategic plan, priorities and objectives. This debt policy shall guide decisions and actions related to issuing and managing debt and shall serve as a tool for ensuring that the District maintains ready access to debt capital and that the proceeds of any debt issuance will be directed to the intended use. These policies may be amended by subsequent action of the Governing Board.

I. Authorization**A. Purposes for Which the Debt May Be Issued**

The laws of the State of California authorize the issuance of debt by District and confer upon it the power and authority to make lease payments, contract debt, borrow money, and issue bonds for public improvement projects. Under these provisions, the District may issue debt to pay for the cost of acquiring, constructing, reconstructing, rehabilitating, replacing, improving, extending, enlarging, and equipping such projects; to refund existing debt or to provide for cash flow needs.

B. Goals and Objectives

1. The District shall endeavor to attain 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.
2. The District shall take all practical precautions and proactive measures to avoid any financial decision that will negatively impact current credit ratings on existing or future debt issues.
3. The District shall remain mindful of its statutory debt limit in relation to assessed value within the school district and the tax burden needed to meet long- term capital requirements.
4. The District shall consider market conditions and District cash flows when timing the issuance of debt.

II. Types of Debt that May Be Issued**A. Short Term Debt**

Temporary Transfers - County Pool. The District may request a temporary transfer from the Orange County Educational Investment Pool pursuant to California Constitution Article XVI, Section 6 and subject to approval from the Orange County Board of Supervisors. A temporary transfer must be requested prior to the last Monday in April and shall be repaid from the first revenues accruing to the District before any other obligation of the District is met from such

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revenue. The aggregate amount of temporary transfers requested in a given year shall not exceed 85% of the anticipated revenues accruing to the District.

Notes and Other Borrowings. The District may issue fixed-rate and/or variable rate short-term debt, which may include tax and revenue anticipation notes (“TRANs”) when such instruments allow the District to meet its cash flow requirements. However, the District’s general objective is to manage its cash position in a manner so that internally generated cash flow is sufficient to meet expenditures. Bond anticipation notes and/or grant anticipation notes may be authorized as needed as interim financing methods.

B. Long Term Debt

Long-term debt may be issued to finance the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities. Long-term debt financing shall not be used to fund operating costs or operating deficits. The principal types of debt instruments to finance long-term capital projects are general obligation (GO) bonds, lease revenue bonds, certificates of participation (COPs) and capital leases. Such instruments may be refunded by the issuance of refunding obligations for economic savings and/or restricting considerations.

1. General Obligation (GO) Bonds

General obligation bonds will be used to finance the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities.

2. Lease Revenue Bonds

Lease revenue bonds will be used to finance the acquisition, improvement, and/or construction of real property; acquisition of capital equipment; and other capital projects.

3. Certificates of Participation (COPs)

COPs will be used for acquisition or improvement of existing facilities and/or construction of new facilities that result in immediate or future savings in payments currently made or to be made by the District’s General Fund, or for other lawful purposes presented to the District Board in connection with the approval of COPs.

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For example, COPs may be used to provide funds to execute a lease purchase option for a facility whereby future savings accrue to the General Fund during the period for which the COPs and the lease would be outstanding. COPs also are appropriate for projects which will be matched with grant and other additional moneys, reduce operating costs to the District, address critical and urgent seismic and other public safety hazards for which no other sources are practically available, or provide for the delivery of services mandated by law.

4. Capital Leases

Capital equipment and personal property may be eligible for capital lease financing.

5. Refunding Obligations

Refunding Bonds will be issued typically to achieve debt service savings, although other non- economic factors may support the issuance of such obligations.

Absent any significant non-economic factors which may be described to the Board in connection with approval of a refunding, a refunding should produce minimum net debt service savings (net of reserve fund earnings and other offsets) of at least 3% of the par value of the refunded bonds on a net present value basis, using the refunding issue's True Interest Cost ("TIC") as the discount rate. The TIC is the annual discount rate (yield) which, when used to discount all debt service payments to the date of issuance, results in the aggregate present value of such debt service payments being equal to the original purchase price of the issue.

III. Debt Limits- Summary of Applicable Legal Provisions

The District considers its debt portfolio holistically, that is, it optimizes the portfolio of debt for the entire local educational agency rather than on a project-by-project basis. Therefore, management makes decisions regarding project prioritization, debt portfolio optimization, and financing structures within the context of the overall needs and circumstances of the District.

A. State Constitution

Section 18 of Article XVI of the State Constitution contains the basic "debt limitation" formula applicable to the District. Sections 1(b)(2) and 1(b)(3) of Article XIII A of the State Constitution allow the District to issue traditional general obligation bonds and Proposition 39 bonds, respectively. The statutory authority for issuing general obligation bonds is contained in Section 15000 et seq. of the Education Code. Additional provisions applicable only to Proposition 39 general obligation bonds are contained in Section

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15264 et seq. of the Education Code. An alternative procedure for issuing general obligation bonds is also available in Section 53506 et seq. of the Government Code. Government Code section 8855 requires local government agencies to adopt local debt policies.

B. State Laws

The statutory authority for issuing TRANs is contained in Section 53850 et seq. of the Government Code. Authority for lease financings is found in Section 17455 et seq. of the Education Code and additional authority is contained in Sections 17400 et seq., 17430 et seq. and 17450 et seq. of the Education Code. The District may also issue Mello-Roos bonds pursuant to Section 53311 et seq. of the Government Code.

Education Code section 15102 and 15268 limits an elementary or high school district's total outstanding bonded debt (i.e., the principal portion only) to not exceed 1.25 percent of the taxable property of the school district or community college district, as shown by the last equalized assessment of the county in which the district is located. Additionally, Education Code section 15268 states that the levied bond tax rate for elementary and high school districts may not exceed \$30 per year per \$100,000 of assessed valuation.

Education Code section 15106 and 15270 limits a unified school district or community college district total outstanding bonded debt (i.e., the principal portion only) to not exceed 2.5 percent of the taxable property of the school district or community college district, as shown by the last equalized assessment of the county in which the district is located. Additionally, Education Code section 15270 states that the levied bond tax rate for a unified school district may not exceed \$60 per year per \$100,000 of assessed valuation and that the levied bond tax rate for a community college district may not exceed \$25 per year per \$100,000 of assessed valuation.

The foregoing summary of applicable legal provisions is subject to change, due to future enactments, amendments or other events. It shall be the District's policy to adhere to legal requirements which apply to existing debt or debt to be issued. This Debt Policy does not require amendment each time a change in law occurs which may add to or change the above legal provisions.

IV. Structural Features**A. Maturity of Debt**

The weighted average maturity of a debt issue shall be consistent, to the extent possible, with the average economic or useful life of the improvements or assets that the issue is

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financing. As required by federal tax law, the weighted average maturity of the debt (or the portion of the debt allocated to the financed projects) will not exceed the average useful life of the project to be financed by more than 20%.

1. General Obligation Bonds
 - a. The final maturity of General Obligation Bonds issued under the Education Code shall not exceed 25 years pursuant to Education Code section 15144.
 - b. The final maturity of General Obligation Bonds issued under the Government Code shall not exceed 40 years. Per Section 53508.6 of the Government Code, the final maturity of bonds issued as capital appreciation bonds shall not exceed 25 years.
2. Lease-Purchase Options: The final maturity of equipment or real property lease obligations will be limited to the useful life of the assets to be financed. The final maturity of real property obligations will also consider the size of the financing. Notwithstanding the foregoing, for lease obligations undertaken on a tax-exempt basis, the requirements of federal tax law relating to useful life and average weighted maturity shall apply.
3. Mello-Roos Obligations and Revenue Bonds: These obligations, although repaid through additional taxes levied on a discrete group of taxpayers or from pledged developer fees, constitute overlapping indebtedness of the District and have an impact on the overall level of debt in the District. The District will develop separate guidelines for the issuance of such obligations if the need arises.

B. Debt Service Structure

The District shall design the financing schedule and repayment of debt so as to take best advantage of market conditions, provide flexibility, and, as practical, to recapture or maximize its debt capacity for future use. Annual debt service payments will generally be structured on a level basis per component financed; however, principal amortization may occur more quickly or slowly where permissible, to meet debt repayment, tax rate, and flexibility goals.

C. Capitalized Interest

Unless required for structuring purposes (e.g. first interest payment due before tax levy dollars are available) or other market conditions, the District will avoid the use of capitalized interest in order to avoid unnecessarily increasing the bond size and interest expense.

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One of the factors contributing to the District's high credit ratings is its moderate General Fund- supported debt level relative to other issuers and as compared to the resources available to repay the debt. 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.

V. Related Issues - Internal Controls**A. Financial Disclosure**

The District shall prepare or cause to be prepared appropriate disclosures as required by Securities and Exchange Commission Rule 15c2-12, the federal government, the State of California, rating agencies, bond insurers, underwriters, bond counsel, investors, taxpayers, and other persons or entities entitled to disclosure to ensure compliance with applicable laws and regulations and agreements to provide ongoing disclosure.

B. Review of Financing Proposals

All capital financing proposals involving a pledge of the District's credit through the sale of securities, execution of lease or purchase agreements, or otherwise directly or indirectly lending or pledging of the District's revenues initially shall be referred to the Chief Business Official (CBO) who shall determine the financial feasibility of such proposal and make recommendations accordingly to the Board.

C. Establishing Financing Priorities

The Chief Business Official shall administer and coordinate this Policy and the District's debt issuance program and activities, including timing of issuance, method of sale, structuring the issue, and marketing strategies. The Chief Business Official shall, as appropriate, report to the Superintendent and the Board regarding the status of the current and future year programs and make specific recommendations.

D. Rating Agencies and Credit Enhancement Providers

The District shall endeavor to maintain effective relations with rating agencies and credit enhancement providers such as bond insurers. The Chief Business Official along with the District's General Financial Advisor shall meet with, make presentations to, or otherwise communicate with the rating agencies on a consistent and as appropriate basis in order to keep the agencies informed about the District's capital plans, debt issuance program, and

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other appropriate financial information. The Chief Business Official with the District's General Financial Advisor shall communicate with credit enhancement providers as appropriate to determine if a cost effective product for the District is commercially available with reasonable terms and conditions.

E. Sale of Securities

There are three methods of sale authorized by law: competitive, negotiated, and private placement.

Factors bearing on the method of sale include the best method of obtaining the lowest borrowing cost for the type of debt proposed, timing the sale in the bond market, market volatility, refunding sensitivity or the use of an unusual or complex financing or security structure resulting in a concern with regard to marketability, and other factors. The rationale for the proposed manner of sale shall be presented to the District Board in connection with the approval of each debt issuance.

F. Refunding and Restructuring Policy

Whenever deemed to be in the best interest of the District, the District shall consider refunding or restructuring outstanding debt when financially advantageous or beneficial for debt repayment and structuring flexibility. Any savings achieved from such restructuring shall be applied in accordance with all applicable laws.

G. Variable Rate Debt

To maintain a predictable debt service burden, the District gives preference to debt that carries a fixed interest rate. The District, however, may consider variable rate debt to diversify its debt portfolio, reduce interest costs, increase repayment flexibility and match the durations of assets and liabilities, or other considerations. Prior to issuing variable rate instruments, District staff and the financial advisor will analyze the savings available in comparison to fixed rate instruments and evaluate and quantify the risks associated with the variable rate debt.

The most recent ten-year average of the BMA Index may be used as a benchmark for determining the variable rate debt cost. Ancillary costs for remarketing, liquidity, or broker-deal and tender agent fees should also be reflected in the analysis.

1. As long as variable rate debt is outstanding, the District will actively monitor and evaluate market conditions and will determine if it is appropriate and cost efficient to convert the variable rate debt to fixed interest rates.

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2. Consistent with rating agency guidelines, the percentage of unhedged variable rate debt outstanding at the time of any debt issuance shall not exceed the upper limit for such debt specified by the rating agencies. Unhedged variable rate debt representing 15 percent of District's total outstanding debt is an acceptable upper limit.
3. For purposes of this limitation, variable rate debt is considered hedged if it is subject to an interest cap, has been synthetically converted to a fixed rate, or if short-term investments offset variable rate debt exposure. Short-term District investments for purposes of this limitation shall include monies invested and maintained for working capital and liquidity purposes.

H. Transaction Records

The Chief Business Official or designee shall maintain complete records of decisions made in connection with each financing, including the selection of the financing team members, the structuring of the financing, and selection of investment products. The Chief Business Official shall timely provide a summary of each financing to the Board.

I. Financing Team

1. Members

The District may use the services of professional service providers, such as Bond Counsel, Legal Counsel, Independent Financial Advisors, Bond Rating Analysts, or other debt management advisors in order to assist the District with the effective management of its debt.

2. Disclosure

All financing team members will be required to provide full and complete disclosure, under penalty of perjury, relative to any and all agreements with other financing team members and outside parties. The extent of the disclosure may vary depending on the nature of the transaction. However, in general term, no agreements will be permitted which would compromise a firm's ability to provide independent advice which is solely in the best interests of the District, or which could reasonably be perceived as a conflict of interest.

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Within twenty (20) days after the sale of debt, the District shall submit a report of final sale to the California Debt and Investment Advisory Commission (Commission). A copy of the final official statement for the issuance shall accompany the report of final sale. If there is no official statement, the issuer shall provide each of the following documents, along with the report of final sale:

1. Other disclosure document;
2. Indenture;
3. Installment sales agreement;
4. Loan Agreement;
5. Promissory note;
6. Bond purchase contract;
7. Resolution authorizing the issue; and,
8. Bond specimen.¹

VII. Annual Report of Debt Issue

Pursuant to California Government Code Section 8855(k)(1), the District shall submit an annual report to the California Debt and Investment Advisory Commission (CDIAC) for any issue of debt for which it has submitted a report of final sale on or after January 21, 2017. The annual report shall cover a reporting period from July 1 to June 30, inclusive, and shall be submitted no later than seven (7) months after the end of the reporting period by any method approved by the Commission. Before approving any annual method of reporting, the Commission shall consult with appropriate state and local debt issuers and organizations representing debt issuers for purposes that shall include, but not be limited to, making a proposed reporting method more efficient unless burdensome for issuers. The annual report shall consist of the following information:

1. Debt authorized during the reporting period, which shall include the debt authorized at the beginning of the reporting period, the debt authorized and issued during the reporting period, debt authorized but not issued at the end of the reporting period, and debt authority that has lapsed during the reporting period.
2. Debt outstanding during the reporting report shall include principal balance at the beginning of the reporting period, principal paid during the reporting period, and principal outstanding at the end of the reporting period.
3. The use of proceeds of issued debt during the reporting period, which shall include the debt proceeds available at the beginning of the reporting period, proceeds spent during the reporting period and the purposes for which it was spent, and debt proceeds remaining at the end of the reporting period.

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Legal Reference:

EDUCATION CODE

15100-15111	Purposes for Issuing
Bonds 15140-15150	Issuance and Sale of
Bonds 15180-15182	Required Form of Bonds
15190-15194	Registration of Bonds
15230-15235	Method of Bond Payment
15250-15254	Tax for Payment of Bonds
15264-15276	Strict Accountability in Local School Construction Bonds Act of
2000 17400-17429	Leasing Property
17450-17453.1	Leasing of Equipment
17455-17484	Sale or Lease of Real

Property GOVERNMENT CODE

8855	California Debt and Investment Advisory Commission
53506-53509.5	Issuances of Bonds
53311-53317.5	Mello-Roos Community Facilities Act of 1982
53850-53858	Tax Revenue Anticipatory Notes (TRANS)

CALIFORNIA CONSTITUTION

Article XIII – Tax Limitation, Section 1

Article XVI – Public Finance, Section 6 - 18

SECURITIES AND EXCHANGE COMMISSION RULE

17 CFR 240.15c2-12 Municipal securities disclosure

WEB SITES

California State Treasurer's Office, California Debt and Investment Advisory Commission: Local Agency Investment Guidelines <http://www.treasurer.ca.gov/cdiac/laig/guideline.pdf>

California State Treasurer's Office, California Debt and Investment Advisory Commission: Debt Issuance Primer <http://www.treasurer.ca.gov/cdiac/debtpubs/primer.pdf>

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WESTMINSTER SCHOOL DISTRICT
Westminster, California