Business and Noninstructional Operations

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)
(cf. 7210 - Facilities Financing)

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) – No CVESD BP/AR
(cf. 9270 - Conflict of Interest)

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DEBT ISSUANCE AND MANAGEMENT (Continued)

This policy shall govern all debt obligations issued by the District. The District recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the District's sound financial position;

- Ensure the District has the flexibility to respond to changes in future service priorities, revenue inflows, and/or cost structures;

- Protect the District's short-term and long-term credit ratings; and

- Protect both current and future taxpayers from being made responsible for the repayment of poorly structured and/or overly costly capital financings.

Furthermore, the District recognizes that a binding commitment to the full and timely repayment of all debt is an intrinsic requirement for entry and participation in the capital markets. As such, the parameters for issuing and managing debt set forth herein seek to provide guidance to decision makers concerning the timing and purposes for which debt may be issued, the types of debt that may be issued, the amount and structure of such debt, the preferred method of sale, and internal control procedures.

1) Purposes for Which Debt Proceeds May Be Used

    a) The District may issue debt for either of the two purposes:

        i) Long-term debt that finances the construction, acquisition, and rehabilitation of District facilities, equipment and sites; and
        ii) Short-term debt that provides financing for the District's operational cash flows in order to maintain a steady and even cash balance.

    b) Long-term debt financings shall be appropriate when the following conditions exist:

        i) When the capital improvement and/or equipment to be financed is necessary to provide basic services relating to District's ability to deliver services;

ii) When the capital improvement and/or equipment to be financed will provide benefit over multiple years so that it is appropriate that the cost be spread over such years;

iii) When total debt does not constitute an unreasonable burden to the District and its taxpayers; or

iv) When such debt is used to refinance existing debt in order to produce a financial savings to the District or its taxpayers.

c) Long-term debt financings will not generally be considered appropriate for any recurring purpose such as current operating and maintenance expenditures. The District will use long-term debt financings for the construction and/or acquisition of capital improvements or equipment, which may include appropriate expenditures required to integrate the improvements or equipment into the District's educational programs under the following circumstances:

i) The capital improvement and/or equipment to be financed must be approved by the District Board;

ii) The useful life of the capital improvement to be financed will equal or exceed the final maturity of the financing;

iii) The useful life of the equipment to be financed will equal or exceed the final maturity of the financing or the portion of the financing allocated to the purchase of the equipment where both equipment and capital improvements are being financed in the same issue;

iv) are revenues sufficient to service the debt, whether from future property or special taxes, user fees, an identified portion of revenues from the General Fund or other revenues specified and identified at the time of the sale of the debt; and

v) The financing complies with the appropriate provisions of the laws of the State of California including, but not limited to, the Education Code and the Government Code, and federal laws determined to be applicable to the financing.

d) For short-term debt, financings shall be appropriate when the result will be a more even and steady monthly cash flow balance.

e) The District may also find it beneficial to issue debt on behalf of external agencies such as nonprofit corporations or other entities for similar purposes in order to further the goals and objectives of District. In such cases, the District shall take reasonable steps to confirm the financial feasibility of the project to be financed and the financial solvency of any borrower and that the issuance of such debt is consistent with the policies set forth herein.

2) Types of Debt That May Be Used, No Derivatives

a) The following types of debt shall be allowable under this Debt Policy:

i) General Obligation Bonds
i) Bond Anticipation Notes
ii) Certificates of Participation
iii) Lease Revenue Bonds
iv) Tax and Revenue Anticipation Notes

b) The District may from time to time find that other forms of debt shall be beneficial to further its educational program or to strengthen its long-term financial condition. There shall be no prohibition to amending this Debt Policy to allow for other forms of debt so long as such forms of debt adhere to the provisions of this Debt Policy.

c) Debt shall be issued as fixed rate debt unless the District makes a specific determination as to why a variable rate issue would be beneficial to the District in a specific circumstance.

d) No derivatives shall be used in connection with any debt issued by the District.

3) Relationship/Integration of Debt to Capital Improvement Program and Budget

a) The District shall strive to fund the upkeep of its infrastructure and facilities due to normal wear and tear through the expenditure of annual operating revenues in order to protect the District's investment and to minimize future replacement and maintenance costs. The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

b) The District shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that facilities and equipment are available when needed for the District's educational program. The District shall strive to avoid the issuance of debt earlier than required to meet its program needs.

c) The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.

d) The District shall approve the use of debt to fund deferred maintenance projects when the funding of such projects complies with paragraphs 1.(b) and 1.(c) of this Debt Policy.

e) The District shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its General Fund.

4) Policy Goals Related to Issuer's Planning Goals and Objectives

a) It shall be the policy goal of the District to protect taxpayers by utilizing conservative financing methods and techniques so as to obtain the lowest cost of debt.

b) To this end, it shall be the policy goal of the District to obtain the lowest cost of financing by selling its debt through the competitive bid process whenever possible.

c) The District recognizes that there shall from time to time be situations when the use of the competitive sale of its debt will not in the best interests of the District and its taxpayers. In such cases, the District shall offer its debt through either a negotiated sale with one or more underwriters or the direct placement with investors. In such cases, the policy goals of the District shall be as follows:

i) In the case of a negotiated sale, the District shall seek multiple proposals from qualified underwriting firms. However, the District also recognizes that there may be unique situations when the sole source engagement of a particular underwriting firm shall be in the best interests of the District and its taxpayers.

ii) In the case of a direct placement of debt with investors, the District shall seek multiple proposals from qualified investors.

d) The District will comply with the appropriate provisions of the laws of the State of California, including, but not limited to, the Education Code and the Government Code, as it pertains to the maximum term and tax levies for the debt issuance.

e) The District recognizes that the use Capital Appreciation Bonds (CABs) is allowable under the laws of the State of California. However, it also recognizes that the use of CABs can result in excessive borrowing costs to future taxpayers. For this reason, it shall be the policy of the District to avoid the use of CABs whenever possible.

f) When refinancing debt, it shall be the policy goal of the District to seek savings from such refinancings that meet the following criteria whenever possible:

i) Minimum net present value debt service savings equal to or greater than 5.0% of the refunded principal amount.

ii) Present value debt service savings equal to or greater than 100% of any escrow fund negative arbitrage.

g) Notwithstanding paragraph 4-f, the District recognizes that there may be unique situations with respect to certain refinancings in which the above targets are not met but that the financial and/or non-financial benefits derived from the refinancing will be in the best interest of the District and/or its taxpayers. In such cases, a clear rationale for the deviation from this policy must be provided to the Board of Trustees prior to the approval of the resolution to proceed with the financing.

5) Internal Control Procedures

   a) When issuing debt, in addition to complying with the terms of this Debt Policy, the District shall comply with its Disclosure Policies and Procedures regarding the preparation of any Preliminary Official Statement and Official Statement for a debt issuance. As set forth in the Disclosure Policies and Procedures, the Deputy Superintendent is responsible for implementing internal procedures to ensure compliance with the Disclosure Policies and Procedures and is designated as the officer of the District primarily responsible for implementing internal procedures to ensure compliance with this Debt Policy. The District will periodically review the requirements of, and will remain in compliance with, SEC Rule 15c2-12 by filing its annual financial statements and other financial and operating data, as required, for the benefit of its bondholders.

   b) The District will follow a policy of full compliance with all federal tax law requirements for each debt issue as set forth in the tax certificate, including all expenditure rules and arbitrage rebate requirements of the Internal Revenue Code of 1986, as amended and its adopted rules and regulations, and will engage the services of an expert consultant to perform arbitrage calculations for each debt issue subject to rebate on an annual basis.

   c) Debt proceeds will be invested in accordance with the District's Investment Policy or as otherwise permitted in the ordinance or resolution authorizing the issuance of the debt.

6) Waivers of Debt Policy

   a) There will be circumstances from time to time when strict adherence to a provision of this Debt Policy is not possible or not in the best interest of the District.

   b) If the District staff has determined that a waiver of one or more provisions of this Debt Policy should be considered by the Board of Trustees, it will prepare an analysis for the Board of Trustees describing the rationale for the waiver and the impact of the waiver on the proposed debt issuance and on taxpayers, if applicable.

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DEBT ISSUANCE AND MANAGEMENT (Continued)

c) Upon a majority vote of the Board of Trustees, one or more provisions of this Debt Policy may be waived for a debt financing.

d) The failure of a debt financing to comply with one or more provisions of this Debt Policy shall in no way affect the validity of any debt issued by the District in accordance with applicable laws.

7) Records/Reports

a) 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)

b) 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)

c) 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)

d) 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)

d) 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 assign personnel and develop written procedures to ensure compliance with the above-referenced rule.

The Superintendent or designee shall maintain transaction records of decisions made in connection with each debt issuance, including the selection of members of the financing team, the structuring of the financing, selection of credit enhancement products and providers, and selection of investment products. Each transaction file shall include the official transcript for the financing, interest rates and cost of issuance on the day when the debt was sold ("final number runs"), and a post-pricing summary of the debt issue. In addition, documentation evidencing the expenditure of proceeds, the use of debt-financed property by public and private entities, all sources of payment or security for the debt, and investment of proceeds shall be kept for as long as the debt is outstanding, plus the period ending three years after the financial payment date of the debt or the final payment date of any obligations or series of bonds issued to refund directly or indirectly all of any portion of the debt, whichever is later.

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

DEBT ISSUANCE AND MANAGEMENT (Continued)

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
240.15c2-12 Municipal securities disclosure
CODE OF FEDERAL REGULATIONS, TITLE 26
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: http://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: http://www.sec.gov