

# AP 6307 Debt Issuance and Management

## Reference:

*Government Code Section 8855  
Title 4 Sections 6000 et seq.*

## 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

## Authorized Types of Debt

The Superintendent/President 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 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, or special tax bonds issued pursuant to the Mello-Roos Community Facilities Act of 1982 or other funding sources that are reasonably available to meet the District's repayment requirements.
  - 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. In appropriate circumstances, the District may use School Facilities Improvement Districts as an alternative method of issuing general obligation bonds.
  - 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 priority capital equipment purchases when pay-as-you-go financing is not desirable.
  - 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 practical or unavailable.
4. Special financing programs or structures offered by the federal or state government, 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 sufficiently lower financing costs compared to traditional tax-exempt bonds and/or COPs
5. Temporary borrowing from other sources such as the County Treasurer

### **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 current 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.

The cost of debt issued for major capital repairs or replacements shall be evaluated against the potential cost of delaying such repairs and/or replacing such facilities.

When considering a debt issuance, the District 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 the tax burden on the District's taxpayers; the effect of annual debt service secured by the general fund on general fund expenditures; the amortization structure, prepayment features, and useful life of the projects being financed (for further information see "Structure of Debt Issues" below).

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 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 and does not exceed the amount authorized by voters.

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 the term required by law.

The final maturity of equipment or real property lease obligations will be limited to the useful life of the assets to be financed.

### **Method of Sale**

For the sale of any District-issued debt, the District 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 bidding process through which the award is based on, among other factors, the lowest offered true interest cost
2. Negotiated sale, subject to approval by the District to ensure that interest costs are in accordance with comparable market interest rates
3. Private placement sale, when the financing can or must be structured for a single or limited number of purchasers or where the terms of the private placement are more beneficial to the District than either a negotiated or competitive sale

### **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.

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.

## Goals of Debt Management Policy

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. If applicable, pursues 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 all practical precautions and proactive measures to avoid any financial decision that will 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 cannot be 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

### **Internal Controls**

The District has established internal control procedures to ensure that the proceeds of any debt issuance is directed to the intended use. Some internal controls include, but are not limited to:

1. Tracking the structure of debt issues through the District's financial software system with the guidelines established within the California Community Colleges Chancellor's Office (CCCCO) Budget and Accounting Manual (BAM).
2. Identifying roles and responsibilities of internal participants in debt management while ensuring proper segregation of duties in regards to authority to initiate, submit, reconcile, view or approve different types of transactions.
3. Establishing proper timeframes to perform quantifiable measures of both performance evaluations and financial reconciliations to ensure specific targets are being addressed properly.
4. Monitoring of the effectiveness of internal control procedures on an ongoing basis with periodic review of controls.

5. Perform annual audits designed to ensure compliance with legal requirements, best practices and internal controls.

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 District shall ensure that it 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**

No later than 30 days prior to the sale of any debt issue, the District shall submit a report of the proposed issuance to the California Debt and Investment Advisory Commission through the Commission's online submittal system. The report of the proposed debt issuance shall include a certification by the District that it has adopted local debt policies concerning the use of debt and that the contemplated debt issuance is consistent with those local debt policies.

No later than 21 days after the sale of the debt, the District shall submit a report of final sale to the California Debt and Investment Advisory Commission through the Commission's online submittal system. A copy of the final official statement for the issue shall accompany the report of final sale. If there is no official statement, the District shall provide each of the following documents, if they exist, 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.
8. Bond specimen.

The District shall submit an annual report 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 months after the end of the reporting period. The annual report shall consist of the following information:

1. Debt authorized during the reporting period, which shall include the following: (1) Debt authorized at the beginning of the reporting period; (2) Debt authorized and issued during the reporting period; (3) Debt authorized but not issued at the end of the reporting period; and (4) Debt authority that has lapsed during the reporting period.
2. Debt outstanding during the reporting period, which shall include the following: (1) Principal balance at the beginning of the reporting period; (2) Principal paid during the reporting period; and (3) 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 following: (1) Debt proceeds available at the beginning of the reporting period; (2) Proceeds spent during the reporting period and the purposes for which it was spent; and (3) Debt proceeds remaining at the end of the reporting period.