# West Contra Costa USD
## Board Policy
**Debt Issuance and Management Policy**

BP 7214.5
**Facilities**

## Article I. **Purpose and Goals**
The purpose of this Debt Issuance Policy (the "Debt Policy") is to provide a functional tool for debt management and capital planning, as well as to enhance the West Contra Costa Unified School District's (the "District") ability to manage its debt in a conservative and prudent manner.

The District shall pursue the following goals in furtherance of the purposes hereof:

- to fund capital improvements from general obligation bonds or such other debt not secured by its General Fund in order to preserve the availability of its General Fund for operating and other purposes not permitted to be funded by such bonds.
- to attain the best possible credit rating for each debt issue in order to reduce interest costs, while preserving financial flexibility and meeting capital funding requirements.
- to avoid wherever practicable any financial decision that will negatively impact current credit ratings on existing or future debt issues.
- to monitor the statutory debt limit in relation to projected assessed valuation within the district and the tax burden needed to meet long-term capital requirements.
- to consider market conditions and District cash flows when timing the issuance of debt.
- to consult with financial advisors regarding each maturity schedule in order to afford the District with the best overall debt structure.
- to match the term of the issue to the useful lives of assets whenever practicable and economic, while considering repair and replacement costs of those assets to be incurred in the future.
- to assess and consider financial alternatives, including categorical grants, revolving loans or other State/federal aid, so as to minimize the use of the District's General Fund.
- to consider the District's ability to expend the funds obtained in a timely, efficient and economical manner.

## Article II. **Authorization**

### Section 2.01 Authority and Purposes of the Debt
The laws of the State of California ("State") authorize the issuance of debt by the District, and confer upon it the power and authority to make lease payments, issue debt, borrow money, and issue bonds for public improvement projects and to provide for the District's operational cash flows in order to maintain a steady and even cash flow balance. 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 improvement projects; to refund existing debt; or to provide for cash flow needs.

## Section 2.02 **Types of Debt Authorized**

A. Short-Term Debt: 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. The District may also issue short-term debt in the context of funding shorter-term acquisitions, such as equipment, or interim funding for capital costs that will ultimately be replaced with long-term debt (i.e., maturities longer than one year). The District may also participate in an annual pooled financing of delinquent property taxes to the extent that the Associate Superintendent, Business Services, or his or her designee (herein, the "Finance Officer"), determines such financing produces significant benefit to the District.

B. Long-Term Debt: Debt issues may be used to finance essential capital facilities, projects and certain equipment where it is appropriate to spread the cost of the projects over more than one budget year. In so doing, the District recognizes that future taxpayers who will benefit from the investment will pay a share of its cost. Projects which are not appropriate for spreading costs over future years will not be financed with long-term debt. The District may issue long-term debt which includes, but is not limited to, general obligation bonds ("GO Bonds"). GO Bonds may be issued under the State Constitution (Article XIII A), either (i) under Section 1(b)(2) ("Proposition 46"), which requires at least a two-thirds (66.7%) majority, or (ii) under Section 1(b)(3) ("Proposition 39"), which requires approval by at least 55% majority of voters. In addition, GO Bonds shall be issued pursuant to the District's policy regarding the issuance of GO Bonds (BP 7214).

   The District, or the Board of Education of the District (the "Board"), may also (in addition to issuance of GO Bonds), in connection with the financing of capital facilities, property, and equipment, (i) issue bond or grant anticipation notes ("BANs"), (ii) enter into long-term lease or lease-purchase financings ("Financing Leases"), (iii) cause the delivery of Certificates of Participation ("COPs"), (iv) issue or participate in lease revenue bonds ("LRBs"), (v) issue land secured bonds, such as special tax revenue bonds under the Mello-Roos Community Facilities Act of 1982 ("Mello-Roos Bonds"), (vi) limited obligation bonds under applicable assessment statutes ("Assessment Bonds"), or (vi) issue tax-increment financings, conduit financings, other revenue bonds, or other long-term debt, to the extent permitted by law.

C. Priority of Types of Long Term Debt. In recognition of the difficulty in achieving the required local voter approval to issue GO Bonds, such bonds will be generally limited to facilities and projects providing wide public benefit (and as described in the Project List, as applicable to GO Bonds issued under Proposition 39) and for which necessary voter support has been achieved. In order to preserve General Fund debt capacity and budget flexibility, LRBs will be preferred to General Fund supported debt when a distinct and identifiable revenue stream can be identified to support the issuance of bonds at a cost effective rate. COPs may be delivered to finance emergency capital needs for which there are no other viable financing options.

D. Equipment Financing: Lease obligations have the greatest impact on budget flexibility. Accordingly, the District may fund capital equipment with pay-as-you-go financing where feasible, and as preferable to lease obligations.

E. Lease Financing of Real Property: Financing Leases for facilities are appropriate for facilities for which there is insufficient time to obtain voter approval or in instances where obtaining voter approval is not feasible. If and when voter approved debt proceeds become subsequently available, the District will consider using such proceeds to refund, redeem, or pay the Financing Leases, where feasible, in order to alleviate the burden to the General Fund.

F. Identified Repayment Source: The District will, when feasible, issue debt with a defined revenue source in order to preserve the use of General Fund supported debt. Examples of revenue sources include voter approved taxes that repay general obligation or special tax bonds.

G. Use of Other Financing Structures: The District may use other financing structures permitted by federal or State law upon consideration of financing costs versus tax-exempt GO Bonds, LRBs and/or COPs.

H. Compounding Debt: The District may issue Capital Appreciation Bonds, Convertible Capital Appreciation Bonds, or other debt with compounding of interest (collectively, "CABs") pursuant to State law. However, CABs generally result in higher interest costs and may fail to match the cost of the project to the benefits received over the time period the CABs are outstanding. CABs will be avoided unless the Board determines it is necessary to issue CABs for urgent projects that cannot be more cost-effectively financed by an alternative method.

### Section 2.03 **Relationship of Debt to, and Integration with, the District's Facilities Program and Budget**

A. Facilities Plan. The Superintendent or his or her designee shall develop and maintain a facilities master plan (the "Facilities Plan") in accordance with the District's construction and planning policies (BP 7000 and 7100). The Finance Officer shall identify potential funding sources and financing options and match those resources to the capital needs identified in the Facilities Plan. In making such determination, the Finance Officer shall consider the maximum term, average maturity, amortization of debt service, option redemption features, and use of variable or fixed-rate debt, credit enhancements, and other structuring considerations, as further discussed below.

B. Budget. The District recognizes the importance of emergency reserves, including liquidity in the General Fund, that can provide a financial cushion in years of low revenue receipts. In order to provide sufficient reserves for such circumstances, as stated in the goals and objectives above, this Debt Policy provides that the District borrow in the most cost-effective manner with the lowest possible impact to its General Fund (*i.e.*, issuing GO Bonds prior to long-term debt impacting the General Fund).

### Section 2.04 **Policy Goals related to the District's Planning Goals and Objects**

The projects in the Facilities Plan must be in line with the District's educational mission and the Finance Officer will only finance assets with debt obligations which further the District's educational mission and are consistent with this Debt Policy's goals and objectives.

### Section 2.05 **Finance Officer**

The Finance Officer is the designated administrator of the Debt Policy and has overall responsibility, with the Board's approval, for decisions related to the structuring of all District debt issues. The Finance Officer may delegate the day-to-day responsibility for managing the District's debt and lease financings. The Board is the obligated issuer of all District debt and awards all purchase contracts for GO Bonds, BANs, LRBs, COPs, Financing Leases, TRANs and any other debt issuances.

## Article III. **Structure and Sale of Securities; Debt Limits**

### Section 3.01 **Structure of Debt Issues**

A. Maturity of Debt: The duration of a debt issue shall be consistent, to the extent possible, with the economic or useful life of the improvement or asset that the issue is financing. In addition, 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 final maturity of GO Bonds issued pursuant to the Education Code will be limited to 25 years, unless such longer maturity is then permitted by the Education Code. The final maturity of GO Bonds issued under the Government Code will be limited to 40 years, unless such longer maturity is then permitted by the Government Code; provided, that the maturity of GO Bonds may not exceed 30 years if such GO Bonds are CABs. General Obligation Bond issues will generally be sized upon consideration of capital improvement expenditure requirements. Decisions regarding the final maturity of Financing Leases shall take into consideration the useful life of the assets to be financed. The final maturity of real property Financing Leases will also consider the size of the financing.

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.

C. Capitalized Interest: Certain types of financings may require that interest on the debt be paid from capitalized interest until the District has use and possession of a pledged asset. However, the District may pledge assets using an asset transfer structure as collateral for the issue in order to eliminate the need for capitalized interest.

D. Call Provisions: The Finance Officer, based upon analysis from the financial advisor of the economics of callable versus non-callable features, shall consider call provisions for each debt issue.

Section 3.02 **Sale of Securities**

A. Public Sale: There are two methods of a public sale of debt, competitive and negotiated. Both methods of sale shall be considered for all issuance of debt to the extent allowed by law, as each method has the potential to achieve the lowest financing cost given the particular economic and other conditions. When a competitive bidding process is deemed the most advantageous method of sale for the district, award shall be based upon, among other factors, the lowest offered True Interest Cost ("TIC"). When a negotiated sale process is deemed the most advantageous method of sale for the District, award shall be based upon, among other factors, comparable market interest rates.

B. Private Placement: While not used as frequently as negotiated or competitive public sale methods, a private placement sale may be appropriate when, for example, the financing can or must be structured for a single or limited number of purchasers.

Section 3.03 **Credit Enhancements**

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.

Section 3.04 **Impact on Operating Budget and District Debt Burden**

When considering any debt issuance, the potential impact of debt service and additional operating costs associated with new projects on the operating budget of the District, both short and long-term, will be evaluated. The projected ratio of annual debt service secured by the General Fund to General Fund expenditures is one method, as is the additional debt burden of overlapping agencies on taxpayers.

Section 3.05 **Debt Limitation**

The District's total outstanding bonded debt (i.e., the principal portion only) is statutorily limited to 2.50% of the assessed valuation of the taxable property of the District, or as otherwise modified by waivers received from the California Department of Education. TRANs and lease payment obligations in support of COPs or LRBs generally do not count against this limit.

### Section 3.06 **Debt Issued to Finance Operating Costs**

The District shall not finance general operating costs from debt having maturities greater than thirteen months (i.e., long-term debt). However, the District may deem it necessary to finance cash flow requirements under certain conditions. Such cash flow borrowing must be payable from taxes, income, revenue, cash receipts and other moneys attributable to the fiscal year in which the debt is issued. General operating costs include, but are not limited to, those items normally funded in the District's annual operating budget and having a useful life of less than one year.

## Article IV. **Financing Team; Community/Investor Relations; Recordkeeping; Miscellaneous**

### Section 4.01 **Financing Team Members**

A. Financial Advisor: Irrespective of the nature of the sale of securities (competitive, negotiated, or private placement), the District shall select and retain a financial advisor, who shall be an experienced independent registered financial advisor, to provide advice on the District's debt management program, debt issuance structure, rating agency relations, credit enhancement decisions and other transaction details. As determined by the Finance Officer, the financial advisor may be the point person to organize and coordinate activities within the collective financing team.

B. Bond Counsel, Tax Counsel, and Disclosure Counsel: The District may select an external legal team to be used on an as-needed basis to assist with debt issuances or special projects. Such firms may be selected to provide general legal advice on, among other things, debt financing, tax considerations, disclosure documents, and continuing disclosure.

C. Other Team Members: The District, upon the counsel of staff and Financial Advisor, may select and retain other qualified and necessary financing team members as may be required to fulfill the District's obligations related to its debt management program. Other financing team members may include (but are not limited to), special tax consultant, continuing disclosure consultant, continuing disclosure review consultant, continuing disclosure dissemination agent, trustee/fiscal agent, paying agent and bond registrar, trustee, escrow agent, investment advisor, financial printers, credit enhancement provider, reserve surety policy provider, economic analyst and/or data analyst, and arbitrage rebate service provider.

### Section 4.02 **Rating Agencies**

The District shall (i) endeavor to attain the best possible credit rating for each debt issuance (with or without credit enhancement), (ii) endeavor to maintain effective relations with rating agencies, and (iii), together with its financial advisor, meet with, make presentations to, or otherwise communicate with the rating agencies on a regular basis in order to keep the rating agencies informed concerning the District's Facilities Plan, debt issuance program, debt management activities, and other appropriate financial information.

Section 4.03 **Investment Community Relations**

The Finance Officer shall take such actions as may be necessary to ensure that the District complies with its investor relations policy (BP 7214.4).

Section 4.04 **Refunding and Restructuring Outstanding Debt**

Whenever deemed to be in the best interest of the District, the District may consider refunding or restructuring outstanding debt. The refunding or restructuring of outstanding debt shall be pursued in accordance with the District's refunding policy (BP 7214.3).

Section 4.05 **Investment of Borrowed Proceeds and Reserve Funds**

The District acknowledges its on-going fiduciary responsibilities to actively manage the proceeds of debt issued for public purposes and related reserve funds in a manner that is consistent with California law governing the investment of public funds, prudent investment practices, its own investment policies, and with the permitted securities covenants of related debt documents executed by the District. The District's goals for any investment strategy of borrowed proceeds and related reserve funds shall be preservation of principal, followed by availability of funds, followed by return on investment.

Section 4.06 **Transaction Records**

The Finance Officer shall maintain complete records of decisions made in connection with each financing, 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 and providers. Each transaction file shall include the official transcript for the financing, the final number computations and a post-pricing summary of the debt issuance. At the conclusion of any debt issuance, the Finance Officer shall timely provide a summary of the financing to the Board.

Section 4.07 **Post-Closing Procedures**

The Finance Officer shall take such actions as may be necessary to ensure that the District complies with its post-issuance tax compliance procedures (AR 7214) and continuing disclosure policies and procedures (AR 7214.1).

The District shall submit an annual report for any issue of debt for which it has submitted a report of final sale to the California Debt and Investment Advisory Committee ("CDIAC") on or after January 21, 2017, which shall cover a reporting period from July 1 to June 30, inclusive, to CDIAC no later than seven months after the end of such reporting period in a method approved by CDIAC and which complies with Section 8855 of the Government Code of the State.

Section 4.08 **Internal Control Procedures**

District staff shall implement internal control procedures, consistent with the requirements of State law, to ensure that the proceeds of any debt issuance are directed to the intended use.

Section 4.09 **Exceptions or 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 herein. Flexibility is appropriate and necessary in such situations, provided specific authorization is granted to District staff and the District's advisors by the Board.

Policy WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
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