

FINANCE AND ADMINISTRATIVE SERVICES

AP 6307 DEBT ISSUANCE AND MANAGEMENT

References:

- Government Code Section 8855
- Title 4 Sections 6000 et seq.
- Governing Board Resolution N0. 16-21518 dated 2/16/17

Article II

Purposes for Which Debt Proceeds May be Used Section

2.01. Authority and Purposes of the Issuance of Debt

The laws of the State of California (the “State”) authorize the District to incur debt to make lease payments, contract debt, borrow money, and issue bonds for college improvement projects. The District is authorized to contract debt to acquire, construct, reconstruct, rehabilitate, replace, improve, extend, enlarge, and equip such projects; to refund existing debt; or to provide for cash flow needs.

Section 2.02. State Law Section 18 of Article XVI of the State Constitution contains the “debt limitation” formula applicable to the District.

There are a number of State laws that govern the issuance of general obligation bonds (“GO Bonds”) by community college districts. Sections 1(b) (2) (Proposition 46) and 1(b) (3) of Article XIII A (Proposition 39) of the State Constitution allow the District to issue GO Bonds. The statutory authority for issuing GO Bonds is contained in Education Code Section 15000 et seq. Additional provisions applicable only to Proposition 39 GO Bonds are contained in Education Code Section 15264 et seq. An alternative procedure for issuing GO Bonds is also available in Government Code Section 53506 et seq.

The statutory authority for issuing Tax and Revenue Anticipation Notes (“TRANS”) is contained in Government Code Section 53850 et seq. Authority for lease financings is found in Education Code Section 17455 et seq. and additional authority is contained in Education Code Sections 17400 et seq., 17430 et seq. and 17450 et seq. The District may also issue Mello-Roos bonds pursuant to Government Code Section 53311 et seq.

Section 2.03. Debt Issued to Finance Operating Costs

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,

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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.

The District's Superintendent/President, or Vice President for Finance and Administrative Services (the "Assistant Superintendent"), will review potential financing methods to determine which method is most prudent for the District. Potential financing sources include tax and revenue anticipation notes, temporary borrowing from the San Diego County Treasurer-Tax Collector, and internal temporary interfund borrowing.

Article III

Section 3.01. Types of Debt Authorized to be Issued

A. Short-Term: The District may issue fixed-rate and/or variable rate short-term debt, which may include TRANs, when such instruments allow the District to meet its cash flow requirements. The District may also issue bond anticipation notes ("BANs") to provide interim financing for bond projects that will ultimately be paid from GO Bonds.

B. Long-Term: 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. Long-term debt should not be used to fund District operations.

Long term debt in the form of GO Bonds may be issued under Article XIII A of the State Constitution, either under Proposition 46, which requires approval by at least a two-thirds (66.67%) majority of voters, or Proposition 39, which requires approval by at least 55% of voters, subject to certain accountability requirements and additional restrictions.

The District may also enter into long-term leases and/or Certificates of Participation ("COPs") for public facilities, property, and equipment.

C. Lease Financing: Lease-purchase obligations are a routine and appropriate means of financing capital equipment and certain capital facilities. However, lease obligations may impact on budget flexibility.

D. Use of General Obligation Bonds: A significant portion of the District's capital projects are projected to be funded by GO Bond proceeds. Projects financed by the GO Bonds will be determined by the constraints of applicable law and the project list approved by voters

Article IV

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Relationship of Debt to and Integration with District's Capital Improvement Program or Budget

Section 4.01. Impact on Operating Budget and District Debt Burden

In evaluating financing options for capital projects, both short and long-term debt amortization will be evaluated when considering a debt issuance, along with the potential impact of debt service, and additional costs associated with new projects on the operating budget of the District. The cost of debt issued for major capital repairs or replacements may be judged against the potential cost of delaying such repairs.

Section 4.02. Capital Improvement Program

The Assistant Superintendent and the facilities staff have responsibility for the planning and management of the District's capital improvement program subject to review and approval by the Governing Board. Staff will, as appropriate, supplement and revise any applicable Facilities Master Plan in keeping with the District's current needs for the acquisition, development and/or improvement of District's real estate and facilities. Such plans may include a summary of the estimated cost of each project, schedules for the projects, the expected quarterly cash requirements, and annual appropriations, in order for the projects to be completed.

Section 4.03. Refunding and Restructuring Policy

A. Considerations for Refunding.

1. District's Best Interest. Whenever deemed to be in the best interest of the District, the District shall consider refunding or restructuring outstanding debt if it will be financially advantageous or beneficial for debt repayment and/or structuring flexibility.
2. Net Present Value Analysis. The Assistant Superintendent shall review a net present value analysis of any proposed refunding in order to make a determination regarding the cost effectiveness of the proposed refunding.
3. Maximize Expected Net Savings. The timing of any refinancing shall be designed to maximize the District's expected net savings over the life of the bonds.
4. Comply with Existing Legal Requirements. The refunding of any existing debt shall comply with all applicable State and Federal laws governing such issuance.

Article V

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Policy Goals Related to District's Planning Goals and Objectives

In following this Policy, the District shall pursue the following goals:

1. The District shall strive to fund capital improvements from voter-approved GO Bond issues to preserve the availability of its General Fund for District operating purposes and other purposes that cannot be funded by such bond issues.
2. 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.
3. 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.
4. The District shall, with respect to GO Bonds, remain mindful of its statutory debt limit in relation to assessed value growth within the community college district and the tax burden needed to meet long-term capital requirements.
5. The District shall consider market conditions and District cash flows when timing the issuance of debt.
6. The District shall determine the amortization (maturity) schedule which will fit best within the overall debt structure of the District at the time the new debt is issued.
7. The District shall match the term of the issue to the useful lives of assets funded by that issue whenever practicable and economical, while considering repair and replacement costs of those assets to be incurred in future.
8. The District shall, when planning for the issuance of new debt, consider the impact of such new debt on overlapping debt of local, state and other governments that overlap with the District.
9. The District shall, when issuing debt, assess financial alternatives to include new and innovative financing approaches, including whenever feasible, categorical grants, revolving loans or other State/federal aid, so as to minimize the encroachment on the District's General Fund.
10. The District shall, when planning for the sizing and timing of debt issuance, consider its ability to expend the funds obtained in a timely, efficient and economical manner.

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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:

- Other disclosure document.
- Indenture.
- Installment sales agreement.
- Loan agreement.
- Promissory note.
- Bond purchase contract.
- Resolution authorizing the issue.
- 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:

- 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.
- 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.
- 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 is was spent; and (3) Debt proceeds remaining at the end of the reporting period.

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Article VI

Internal Control Procedures for Issuance of Debt to Ensure Intended Use of Proceeds

Section 6.01. 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. Accordingly, the final maturity of the debt shall be equal to or less than the useful life of the assets being financed, and the average life of the financing shall not exceed 120% of the average life of the assets being financed. 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.

B. Debt Structure:

1. GO Bonds:

- a. New Money Bond Issuances: For new money bond issuances, the District shall size the bond issuance consistent with the “spend-down” requirements of the Internal Revenue Code and within any limits approved by the District’s voters. To the extent possible, the District will also consider credit issues, market factors (e.g. bank qualification) and tax law when sizing the District’s bond issuance.
- b. Refunding Bond Issuances: The sizing of refunding bonds will be determined by the amount of money that will be required to cover the principal of, accrued interest (if any) on, and redemption premium for the bonds to be defeased on the call date and to cover appropriate financing costs.
- c. Maximum Maturity: All bonds issued by the District shall mature within the limits set forth in applicable provisions of the Education Code or the Government Code. The final maturity of bonds will also be limited to the average useful life of the assets financed or as otherwise required by tax law.

- 2. Lease-Purchase Obligations: The final maturity of equipment or real property lease obligations will be limited to the useful life of the assets to be financed.

C. 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.

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Section 6.02. Use of Proceeds

The District shall be vigilant in using bond proceeds in accordance with the stated purposes at the time such debt was incurred. In furtherance of the policy, and in connection with the issuance of all GO Bonds:

1. As required by Government Code Section 53410, the District shall only use GO Bond proceeds for the purposes approved by the District's voters; and
2. The Assistant Superintendent shall have the responsibility, no less often than annually, to provide to the District's Governing Board a written report which shall contain at least the following information:
 - (i) The amount of the Bonds proceeds received and expended during the applicable reporting period; and
 - (ii) The status of the acquisition, construction or financing of the school facility projects, as identified in any applicable bond measure, with the proceeds of the GO Bonds.

These reports may be combined with other periodic reports which include the same information, including but not limited to, periodic reports made to the California Debt and Investment Advisory Commission, or continuing disclosure reports or other reports made in connection with the GO Bonds. These requirements shall apply only until the earliest of the following: (i) all the GO Bonds are redeemed or defeased, but if the GO Bonds are refunded, such provisions shall apply until all such refunding bonds are redeemed or defeased, or (ii) all proceeds of the GO Bonds, or any investment earnings thereon, are fully expended.

3. The District shall post on the District website the Annual Report of the District's Independent Bond Oversight Committee which has been given the responsibility to review the expenditure of GO Bond proceeds to assure the community that all GO Bond funds have been used for the construction, renovation, repair, furnishing and equipping of school facilities, and not used for teacher or administrator salaries or other operating expenses.
4. The District shall hire an independent auditor to perform an annual independent financial and performance audit of the expenditure of GO Bond proceeds, and to post such audits on the District website.

Office of Primary Responsibility: Finance and Administrative Services

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