

## AP 6307 DEBT ISSUANCE AND MANAGEMENT

### References:

**Government Code Section 5852.1**

Government Code Section 8855

Government Code Sections 53311 *et seq.*, 53506 *et seq.* and 53850 *et seq.*

Education Code Sections 15000 *et seq.*, and 15264 *et seq.*

Education Code Sections 17400 *et seq.*, 17430 *et seq.*, 17450 *et seq.*

Education Code Section 17455 *et seq.*

State Constitution Section 18 of Article XVI

State Constitution Section 1(b)(2) of Article XIII A (Proposition 46)

State Constitution Section 1 (b)(3) of Article XIII A (Proposition 39)

### I. Purpose and Goals

These administrative procedures provide a framework for debt management and capital planning and have been developed to meet the following goals:

- Identifying the purposes for which debt proceeds may be used.
- Identifying the types of debt that may be issued.
- Describing the relationship of the debt to, and integration with, the District's capital improvement program.
- Establishing goals related to the District's planning goals and objectives.
- Implementing internal control procedures to ensure that the proceeds of the proposed debt issuance will be directed to the intended use upon completion of the issuance.
- Reporting requirements for the California Debt and Investment Advisory Commission (CDIAC).
- **Required disclosures prior to issuance of bonds.**

### II. Purposes for Which Debt Proceeds May be Used

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 district 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 operational cash flow needs.

### III. Types of Debt Authorized to be Issued

#### A. Short-Term

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.

The Chancellor, who may delegate to the Vice Chancellor, Business and Financial Services, will review potential financing methods to determine which is most prudent for the District. Potential financing sources include tax and revenue anticipation notes (TRAN), temporary borrowing from the Riverside County and office of the Treasurer - Tax Collector, and internal temporary interfund borrowing.

- a. Operations - 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.
- b. Facilities - The District may also issue bond anticipation notes ("BANs") to provide interim financing for bond projects that will ultimately be paid from general obligation bond (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 project over more than one budget year. Long-term debt shall 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 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 may be used as a means of financing capital equipment and certain capital facilities.

#### D. Use of General Obligation Bonds

Significant capital facility projects are anticipated to be funded by GO Bond proceeds, along with State Construction Act funding whenever possible. Projects financed by GO Bonds will conform to the constraints of applicable law and voter approved ballot measures.

#### IV. Relationship of Debt to and Integration with District's Capital Improvement Program

##### Impact on Operating Budget and District Debt Burden

In evaluating financing options for capital facility 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 will be evaluated against the potential cost of delaying such repairs.

##### Capital Improvement Program

District and College facilities staff have responsibility for the planning and management of capital improvement programs, subject to review and approval by the Board of Trustees. Facilities Master Plans will be supplemented and revised as appropriate to reflect current needs associated with real estate and facilities in keeping with the District's current needs for acquisition, development and/or improvement. Such plans shall include a summary of the estimated cost of each project, schedule timelines for the projects, the expected quarterly cash requirements, and annual appropriations, in order for the projects to be completed.

##### Considerations for Refunding:

- a. Best Interest - Whenever deemed to be in the best interest of the District, and the property taxpayers residing within 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.
- b. Net Present Value Analysis - The Vice Chancellor of Business and Financial Services shall review a net present value analysis of any proposed refunding to make a determination regarding the cost-effectiveness of the proposed refunding, using a minimum dollar amount and/or percentage savings as a benchmark.

- c. Maximize Expected Net Savings - The timing of any refunding shall be designed to maximize net savings over the life of the bonds.
- d. Compliance with Existing Legal Requirements - Any existing debt refunding shall comply with all applicable State and Federal laws governing such issuance.

## V. Goals Related to District's Planning Goals and Objectives

### A. The District shall pursue the following goals:

- a. Strive to fund major capital improvements from **State allocated construction funds and** voter-approved GO Bond issues to preserve the availability of the District's General Fund for operating purposes and other purposes that cannot be funded by such bond issues.
- b. 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.
- c. 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.
- d. Remain mindful of its statutory debt limit and commitment made to the voters in relation to assessed value growth within the district and the tax burden needed to meet long-term capital requirements.
- e. Consider market conditions and District cash flows when timing the issuance of debt.
- f. 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.
- g. Be mindful of matching 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.
- h. Assess financial alternatives so as to minimize the encroachment on the District's General Fund.
- i. Consider its ability to expend the funds obtained in a timely, efficient and economical manner.

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

### A. 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 debt issue is financing. Accordingly, the District will strive to ensure that in the aggregate, 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
  - i. GO Bonds
    - 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.
    - 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.
    - 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.
  - c. 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.

### 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. Use of Proceeds

The District shall be vigilant in using bond proceeds in accordance with the stated purposes for which such debt was incurred. In connection with the issuance of all GO Bonds:

- a. 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
- b. The Vice Chancellor of Business and Financial Services shall have the responsibility of periodically providing to the District's Board of Trustees a written report which shall contain at least the following information:
  - i. The amount of the debt proceeds received and expended during the applicable reporting period; and
  - ii. The status of the acquisition, construction or financing of the district facility projects, as identified in any applicable bond measure, with the proceeds of the debt.

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 continuing disclosure reports, annual audit reports or other reports made in connection with the debt. These requirements shall apply only until the earliest of the following: (i) all the debt is redeemed or defeased, but if the debt is refunded, such provisions shall apply until all such refunding bonds are redeemed or defeased, or (ii) all proceeds of the debt, or any investment earnings thereon, are fully expended.

- c. 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 district facilities, and not used for teacher or administrator salaries or other operating expenses.

- d. 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.

## VII. Reporting Requirements to the California Debt and Investment Advisory Commission

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. 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 CDIAC. 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:

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

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:

- A. 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.
- B. 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.
- C. 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.

#### VIII. Required Disclosures Prior to Issuance of Bonds

The District as a public entity authorized to issue bonds, is required to obtain and disclose the following in a meeting open to the public prior to approving the issuance of bonds with a term greater than thirteen (13) months:

A. True Interest Cost:

- a. The rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue of bonds.

B. Finance Charge:

- a. The sum of all fees and charges paid to third parties.

C. Accounting for the Proceeds of the Bonds:

- a. The amount of proceeds received by the District for the sale of the bonds, less the Finance Charge of the bonds described in (B) above, and any reserves or capitalized interest paid or funded with proceeds of the bonds.

D. Total Payment Amount:

- a. The sum total of all payments the borrower will make to pay debt service on the bonds, plus the Finance Charge of the bonds described in (B) above, not paid with proceeds of the bonds. The Total Payment Amount shall be calculated to the final maturity of the bonds.

Office of Primary Responsibility: ***Vice Chancellor, Business & Financial Services***

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Administrative Approval: