

Business and Fiscal Affairs

BP 6720 DEBT ISSUANCE AND MANAGEMENT POLICY

References:

S.B. 1029, codified as part of Government Code Section 8855; Government Code Section 53311 et seq; 53506 et seq; 53850 et seq; California State Constitution, Article XVI, Section 18; Article XIII A, sections 1(b)(2)- Proposition 46, and 1(b)(3) Proposition 39; and Education Code Sections 15000 et seq, 15264 et seq, 17400, et seq, 17450 et seq, 17455 et seq.

NOTE: *This policy is legally required.*

This Debt Issuance and Management Policy sets forth the guidelines for the issuance of indebtedness by the Chabot-Las Positas Community College District (the “District”) in satisfaction of the requirements of S.B. 1029, codified as part of Government Code Section 8855, and state laws that govern the issuance of general obligation bonds (“GO Bonds”) by community college districts.

Purpose and Goals

This Policy provides a framework for debt management and capital planning by the District, including:

- (1) Identifying the purposes for which the debt proceeds may be used.
- (2) Identifying the types of debt that may be issued.
- (3) Describing the relationship of the debt to, and integration with, the District’s capital improvement program or budget.
- (4) Establishing policy goals related to the District’s planning goals and objectives.
- (5) 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.

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, and issue bonds for school 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.

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, 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 or the Chancellor's designee will review potential financing methods to determine which method is most prudent for the District. Potential financing sources include but are not limited to tax and revenue anticipation notes, temporary borrowing from the Alameda County Treasurer and Tax Collector, and temporary interfund borrowing.

Types of Debt That May be Issued

Short-Term: 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. The District may also issue bond anticipation notes (BANs) to provide interim financing for bond projects that will ultimately be paid from General Obligation (GO) Bonds.

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 participate in the sale of certificates of participation or lease revenue bonds for public facilities, property, and equipment.

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

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.

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

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.

Capital Improvement Program

Under the direction of the Chancellor, the Vice Chancellor of Business Services and the Vice Chancellor of Facilities have responsibility for the planning and management of the District's capital improvement program subject to review and approval by the Board of Trustees. In accordance with Board Policy, the facilities master plan will be supplemented and revised to address 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, including total cost of ownership, schedules for the projects, the expected quarterly cash requirements, and annual appropriations, in order for the projects to be completed.

Considerations for Refunding and Restructuring

District's Best Interest: Whenever deemed to be in the best interests 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.

Net Present Value Analysis: The District 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.

Maximize Expected Net Savings: The District shall time the refinancing of debt to maximize the District's expected net savings over the life of the debt.

Compliance with Existing Legal Requirements. The refunding of any existing debt shall comply with all applicable State and Federal laws governing such issuance.

Policy Goals Related to District's Planning Goals and Objectives

In its debt issuance and management, the District shall pursue the following goals:

- 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.
- To the extent applicable, 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.
- 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.
- The District shall, with respect to GO Bonds, remain mindful of its statutory debt limit in relation to assessed value growth within the school district and the tax burden needed to meet long-term capital requirements.
- The District shall consider market conditions and District cash flows when timing the issuance of debt.
- 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.

- 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.
- 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.
- 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.

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

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 average life of tax-exempt financing shall not exceed 120% of the average life of the assets being financed. The District shall also consider the overall impact of the current and future debt burden of the financing when determining the duration of the debt issue.

Debt Structure, GO Bonds

New Money Bond Issuances: For tax-exempt new money bond issuances, the District shall size the bond issuance consistent with the "spend-down" requirements of the Internal Revenue Code and, for all new money bond issuance, 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 tax-exempt bonds will also be limited to the average useful life of the assets financed or as otherwise required by tax law.

Taxable Bonds: Taxable bonds shall be considered for funding projects which do not satisfy the "spend-down" requirements of the Internal Revenue Code.

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.

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.

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 connection with the issuance of all GO Bonds:

- 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
- Under the Direction of the Chancellor, the Vice Chancellor, Business Services shall have the responsibility, no less often than annually, to provide 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 school facility projects, as identified in any applicable bond measure, with the proceeds of the debt.

These reports may be combined with other legally required 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 debt.

The reporting 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.

- 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.
- 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.

Date Adopted: July 18, 2017