

BOARD POLICY

San Mateo County Community College District

Subject: 8.07 Debt Issuance and Management

Policy Date: 3/18

Reference: Government Code Section 8855(i)

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1. This Policy provides a framework for debt management and capital planning by the District, and has been developed to meet Government Code Section 8855(i) and the following goals:
 - a. Identifying the purposes for which debt proceeds may be used.
 - b. Identifying the types of debt that may be issued.
 - c. Describing the relationship of the debt to, and integration with, the District's capital improvement program.
 - d. Establishing policy goals related to the District's planning goals and objectives.
 - e. Implementing internal control procedures to ensure that any debt proceeds will be directed to the intended use upon completion of the issuance.
 2. For purposes of this Board Policy, "debt" shall be interpreted broadly to mean bonds, notes, certificates of participation, financing leases, or other financing obligations, but the use of such term in this Board Policy shall be solely for convenience and shall not be interpreted to characterize any such obligation as an indebtedness or debt within the meaning of any statutory or constitutional debt limitation.
 3. The Board Policy may be amended by the Board as it deems appropriate from time to time in the prudent management of the debt of the District. Any approval of debt by the Board that is not consistent with this Board Policy shall constitute a waiver of this Board Policy.

Purposes for which debt proceeds may be used:

1. The District may deem it necessary to finance inter-year cash flow requirements for general operating costs 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.
2. General operating costs include, but are not limited to, those items normally funded in the District's annual operating budget.
3. The District's Chancellor, or his/her designee, will review potential methods for financing inter-year cash flow requirements to determine which method is most prudent for the District. Potential financing vehicles include tax and revenue anticipation notes, temporary borrowing from the San Mateo County Treasurer and Tax Collector, and internal temporary interfund borrowing.

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4. Long-term debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and operated by the District.
5. The District will incur debt to refund outstanding District debt as described below:
 - a. District's Best Interest. The District shall consider refunding or restructuring outstanding debt if it will be financially advantageous or beneficial to reduce interest costs or provide structuring flexibility.
 - b. Net Present Value Analysis. The Vice Chancellor shall review a net present value analysis of any proposed refunding intended to reduce interest costs in order to make a determination regarding the cost-effectiveness of the proposed refunding.
 - c. Debt Sizing. The sizing of a refunding debt issue will be determined by the amount of money required to defease the refunded debt, including financing costs, and will consider account earnings on any escrow fund that may be created to invest the refunding debt proceeds until they are used to pay off the refunded debt.
 - d. Comply with Existing Legal Requirements. The refunding of any existing debt shall comply with all applicable State and Federal laws governing such issuance.

Type of debt that may be issued:

1. The District will authorize the following types of debt for issuance:
 - 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.

For new money debt, the District shall size the debt 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 bondissuance.

- c. **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 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:

1. The District shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues. The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear. The cost of debt issued for major capital repairs or replacements may be judged against the potential cost of delaying such repairs.
2. The District shall integrate its debt issuances with the goals of its capital improvement or master facilities plan or other capital planning documentation by timing the issuance of debt to ensure that projects are available when needed in furtherance of the District's public purposes.
3. The District shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.
4. 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.
5. The Vice Chancellor for Facilities 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 Executive Vice Chancellor and the Chancellor, subject to Board approval. 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 the 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.

Policy goals related to the District's planning goals and objectives:

1. The District is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The District intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the District's annual operations budget.
2. It is a policy goal of the District to protect taxpayers and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.
3. The District will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, fees and charges, as applicable, and in the case of refinancing of existing debt, achieving savings as may be required by law or achieving other objectives of substantial benefit to the District, the rationale for which is presented to the governing board at the public meeting at which the proposed refinancing is considered.
 - a. 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.

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- b. 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.
- c. The District shall consider market conditions, District cash flows and capital requirements when timing the issuance of debt.
- d. The District shall determine the amortization (maturity) schedule that will fit best within the overall debt structure of the District at the time the new debt is issued.
- e. The District shall approximately match the average life of the debt issue to the expected useful lives of assets funded by that issue whenever practicable and economic, while considering repair and replacement costs of those assets to be incurred in future. The District will comply with applicable provisions of law relating to duration of the debt.
- f. The District shall, when planning for the issuance of new debt, consider the impact of such new debt on local, state and other governments that overlap with the District.
- g. In order to minimize the encroachment on the District's General Fund, the District shall, when issuing debt, assess financial alternatives, including new and innovative financing approaches, such as categorical grants, revolving loans or other State/federal aid.
- h. 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:

1. The Executive Vice Chancellor is responsible for implementing and monitoring compliance with this Board Policy.
2. The District may have undertaken, and may undertake in the future, obligations for continuing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12. The Executive Vice Chancellor will periodically review the requirements of Rule 15c2-12 and each of the District's undertakings, and ensure that annual and other periodic filings that may be required are done in a complete and timely manner. The Executive Vice Chancellor may monitor, prepare and make the District's required filings, or may engage a third party dissemination agent to assist the District to make complete and timely filings. It shall be the policy of the District as implemented by the Executive Vice Chancellor to have in place a process for full and complete compliance for the benefit of bondholders or other investors in District debt.
3. The District shall have a policy of full compliance with all applicable federal tax law requirements. In connection with prior and new debt issues, the Executive Vice Chancellor shall review applicable federal tax requirements with its bond or other counsel, including requirements relating to arbitrage and rebate compliance.
4. Proceeds of debt issued by the District shall be invested only in accordance with law and as permitted in the resolution or other document governing the issuance of the debt.
5. It is the policy of the District to ensure that proceeds of District debt is spent only on lawful and intended uses. Expenditures of proceeds of debt may only be made by submission of requests for

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draws to the holder of the proceeds of debt, whether the county, or other trustee, fiscal agent, custodian or financial institution, that identify the amount, purpose and payee of a proposed draw. Each draw request shall be approved and signed by the Chancellor, the Executive Vice Chancellor or such officer's written designee. The District shall maintain records of the purpose and amount of each draw.

6. The District shall have a policy of full compliance with public reporting requirements.