Business and Noninstructional Operations

DEBT ISSUANCE AND MANAGEMENT

The Board of Education (the "Board) of the San Diego Unified School District (the "District") is committed to long-term capital and financial planning and recognizes that the issuance of debt is a key source for funding the improvement and maintenance of school facilities and managing cash flow. Any debt issued by the district shall be consistent with law and this policy.

(cf. 3000 – Concepts and Roles)
(cf. 3460 – Financial Reports and Accountability)
(cf. 7110 – Facilities Master Plan)
(cf. 7210 – Facilities Financing)

This Debt Policy shall provide guidance for the issuance and management of all debt and lease financings of the District, together with credit, liquidity and other related instruments and agreements secured or executed in connection with such transactions. While adherence to this Debt Policy is recommended in applicable circumstances, the District recognizes that changes in the capital markets, District programs and other unforeseen circumstance may produce situations that are not covered by the Debt Policy or require modifications or exceptions to achieve Debt Policy goals. In these cases, management flexibility is appropriate, provided specific authorization from the Board is obtained. The District may approve bonds and other related agreements the terms or provisions of which deviate from this Debt Policy, upon the recommendation and approval of the Superintendent or designee, as circumstances warrant. Any nonmaterial changes to the Debt Policy may be incorporated at the discretion of the Chief Financial or Business Officer. The failure by the District to comply with any provision of this Debt Policy shall not affect the validity of any debt that is otherwise duly authorized and executed.

When the Board determines that it is in the best interest of the District, the Board may issue debt or order an election to issue debt. The Superintendent or designee shall make recommendations to the Board regarding appropriate financing methods for capital projects or other projects that are authorized purposes for debt issuance. When approved by the Board and/or the voters as applicable, the Superintendent or designee shall administer and coordinate the District's debt issuance program and activities, including the timing of issuance, sizing of issuance, method of sale, structuring of the issue, and marketing strategies.

The district shall not enter into indebtedness or liability that in any year exceeds the income and revenue provided for such year, unless two-thirds of the voters or 55% of the voters approve the obligation or one of the exceptions specified in law applies (California Constitution, Article 16, Section 18, as applicable, and Article XIIIA).

The Superintendent or designee shall retain a municipal advisor, investment advisor, or other financial services professionals as needed to assist with the structuring of the debt issuance and to provide general advice on the District's debt management program, financing options, investments, and compliance with legal requirements. Contracts for services provided by such advisors may be for a single transaction or for multiple transactions, consistent with the contracting requirements in Education Code 17596. A retained municipal advisor that meets the qualifications of an independent registered municipal advisor ("IRMA") shall de designated as the District's IRMA. The District will provide representations regarding such IRMA to underwriters when appropriate. If the district issues debt through a negotiated sale, underwriters may be selected for multiple transactions if multiple issuances are planned for the same project. In addition, the District shall select a legal team on an as-needed basis to assist with debt issuances or special projects.

(cf. 3312 - Contracts)
(cf. 3600 - Consultants)
(cf. 9270 – Conflict of Interest)

Goals

The District's debt issuance activities and procedures shall be aligned with the District's vision and goals for providing adequate facilities and programs that support student learning and well-being. When issuing debt, the district shall ensure that it:

1. Maintains accountability for the fiscal health of the district, including prudent management and transparency of the district's financing programs.
2. If applicable, pursues the best possible credit rating for each debt issue to reduce interest costs, within the context of preserving financial flexibility and meeting capital funding requirements.
3. Takes 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. Maintains effective communication with rating agencies and, as appropriate, credit enhancers such as bond issuers or other providers of credit or liquidity instruments to enhance the creditworthiness, liquidity, or marketability of the debt.
5. Monitors the district's statutory debt limit in relation to assessed valuation within the District and the tax burden needed to meet long-term debt service requirements.
6. Considers market conditions, cash flows associated with repayment, and the district's ability to expend the obtained funds in a timely, efficient, and economical manner consistent with federal tax laws, when determining the timing of debt issuance.
7. Determines the amortization (maturity) schedule which will fit best within the overall debt structure of the district at the time the new debt is issued.
8. Considers the useful lives of assets funded by the debt issue, as well as repair and replacement costs of those assets to be incurred in the future.
9. Preserves the availability of the district's general fund for operating purposes and other purposes that cannot be funded by the issuance of voter-approved debt.
10. Meets the ongoing obligations and accountability requirements associated with the issuance and management of debt under state and federal tax and securities laws.

(cf. 0000 - Vision)
(cf. 0200 – Goals for the School District)
(cf. 7000 – Concepts and Roles)

DEBT ISSUANCE AND MANAGEMENT (continued)

Authorized Purposes for the Issuance of Debt (Government Code 8855(i)(1)(A))

The District may issue debt for any of the following purposes:

1. To pay for the cost of capital improvements, including acquiring, constructing, reconstructing, rehabilitating, replacing, improving, extending, enlarging, and/or equipping district facilities.
2. To refund existing debt.
3. To provide for cash flow needs.

(cf. 3100 - Budget)
(cf. 3110 – Transfer of Funds)

Pursuant to Government Code 53854 *et seq.,* general operating costs, including, but not limited to, items normally funded in the District's annual operating budget, shall not be financed from debt payable later than 15 months from the date of issuance. The district may deem it desirable to finance cash flow requirements under certain conditions so that available resources better match expenditures within a given fiscal year. To satisfy both state constitutional and statutory constraints, such cash flow borrowing shall be payable from taxes, income, revenue, cash receipts, and other moneys attributable to the fiscal year in which the debt is issued.

Authorized Types of Debt (Government Code 8855(i)(1)(B))

The Superintendent or designee shall recommend to the Board potential financing method(s) that result in the highest benefit to the District, with the cost of staff and consultants considered. Potential financing sources may include:

1. Short-Term Debt

    a. Short-term debt, such as tax and revenue anticipation notes (TRANs), when necessary to allow the district to meet its cash flow requirements (Government Code 53850-53858). To satisfy both State constitutional and statutory constraints, 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.

    b. Bond anticipation notes (BANs) to provide interim financing for capital bond projects that will ultimately be paid from general obligation bonds (Education Code 15150) or special tax bonds issued pursuant to the Mello-Roos Community Facilities Act of 1982 (Government Code 53311-53368.3).

c. Grant anticipation notes (GANs) to provide interim financing pending the receipt of grants and/or loans from the state or federal government that have been appropriated and committed to the District (Government Code 53859-53859.08).

2. Long-Term Debt

a. General obligation bonds for projects approved by voters (California Constitution, Article XIIIA, Section 1; Education Code 15100-15262, 15264-15276; Government Code 53506-53509.5).

(cf. 7214 – General Obligation Bonds)

b. Special tax bonds issued pursuant to the Mello-Roos Community Facilities Act of 1982 (Government Code 5331-53368.3).

(cf. 7212 – Mello Roos Districts)

3. Lease financing, including certificates of participation (COPs)

a. Lease financing to fund the highest priority capital equipment purchases when pay-as-you-go financing is not feasible (Education Code 17450-17453.1).

b. Lease financing to fund facilities projects when there is insufficient time to obtain voter approval or in instances where obtaining voter approval is either not feasible or unavailable (Education Code 17400-17429).

4. Special financing programs or structures offered by the federal or State government, such as Qualified Zone Academy Bonds or other tax credit obligations or obligations that provide subsidized interest payments, when the use of such programs or structures is determined to result in sufficiently lower financing costs compared to traditional tax-exempt bonds and/or COPs.

5. Temporary borrowing from other sources such as the County Treasurer.

6. In appropriate circumstances, the District may use one or more School Facility Improvement Districts as an alternative method of issuing general obligation bonds (Education Code 15300 *et seq*.).

COPs, TRANs, revenue bonds, or any other non-voter approved debt instrument shall not be issued by the district in any fiscal year in which the district has a qualified or negative certification, unless the County Superintendent of Schools determines, pursuant to criteria established by the Superintendent of Public Instruction, that the district's repayment of that indebtedness is probable (Education Code 42133).

DEBT ISSUANCE AND MANAGEMENT (Continued)

Relationship of Debt to District Facilities Program and Budget (Government Code 8855(i)(1)(C))

Decisions regarding the issuance of debt for financing capital improvement shall be aligned with current needs for acquisition, development, and/or improvement of District property and facilities as identified in the District's facilities master plan or other applicable needs assessment, the projected costs of those needs, schedules for the projects, and the expected resources.

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.

1. Structure of Debt Issues

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 District shall design the financing schedule and repayment of debt to take best advantage of then-current market conditions, ensure cost effectiveness at the time of issuance, provide flexibility, and, as practical, recapture or maximize its debt capacity for future use. Principal amortization and the use of capitalized interest if necessary, will be structured to meet debt repayment, tax rate, and flexibility goals. Call options will be evaluated each time a debt financing is considered.

For new money general obligation bond debt issuances for capital improvements, the District shall size the debt issuance with the aim of funding capital projects as deemed appropriate by the Board, in a manner that is consistent with the overall financing plan, does not exceed the amount authorized by voters, and, unless a waiver is sought and received from the State, will not cause the District to exceed the limitation on debt issuances specified in the California Constitution, Education Code 15106 or Education Code 15270.

To the extent practicable, the District shall also consider credit issues, market factors, and tax law when sizing the District's bond issuance. The sizing of refunding bonds shall be determined by the amount of money that will be required to cover the principal of, any accrued interest on, and any redemption premium for the debt to be paid on the call date and to cover appropriate financing costs.

Any general obligation bond issued by the District shall have a final maturity of no more than 40 years from the issuance date (except for bonds that allow for the compounding of interest, including, but not limited to, capital appreciation bonds, which shall mature within 25 years of the date of issuance per AB 182) or as otherwise required by law (California Constitution, Article 16, Section 18; Government Code 53508.6).

The final maturity of equipment or real property lease obligations will be limited to the useful life of the assets to be financed but, with respect to a lease purchase of equipment, no longer than a period of 10 years (Education Code 17452).

The District will not use interest rate swaps in connection with its debt program unless a separate swap policy is prepared and approved by the Board. The District may use structured investment products to invest bond funds, but only upon staff's analysis of the investment as beneficial to the financing and approval of such investment products as part of the Board action.

2. Method of Sale

For the sale of any District-issued debt, the Superintendent or designee shall recommend the method of sale with the potential to achieve the lowest financing cost and/or to generate other benefits to the District. Potential methods of sale include:

a. A competitive bidding process through which the award is based on, among other factors, the lowest offered true interest cost.
b. Negotiated sale, subject to approval by the District to ensure that interest costs are in accordance with comparable market interest rates.
c. Private placement sale, when the financing can or must be structured for a single or limited number of purchases or where the terms of the private placement are more beneficial to the District than either a negotiated or competitive sale.

3. Investment of Proceeds

The District shall actively manage the proceeds of debt issued for public purposes in a manner that is consistent with State law governing the investment of public funds, federal law governing tax and securities law requirements, and with the permitted securities covenants of related financing documents executed by the District. Where applicable, the District's official investment policy and legal documents for a particular debt issuance shall govern specific methods of investment of bond-related proceeds. Preservation of principal shall be the primary goal of any investment strategy, followed by the availability of funds and then by return on investment.

Regarding general obligation bonds, the District shall invest new money bond proceeds in the County treasury pool, unless approved by the Board and consented to by the County Treasurer, as required by law (Education Code 15146).

The management of public funds shall enable the District to respond to changes in markets or changes in payment or construction schedules to ensure liquidity and minimize risk.

4. Refunding/Restructuring

The District may consider refunding or restructuring outstanding debt if it will be financially advantageous or beneficial for debt repayment and/or structuring flexibility. When doing so, the District shall consider the maximization of the District's expected net present value savings over the life of the debt issuance and, when using a general obligation bond to refund an existing bond, shall ensure that the final maturity of the refunding bond is no longer than the final maturity of the existing bond.

At a minimum, the District will seek to achieve net present value savings equal to at least 3% of the par amount of the bonds that are refunded. For advance refundings closing more than 90 days before the optional call date, the threshold goal will be at least 5% net present value savings. Subject to approval by the Superintendent or designee and the Board, a minimum savings threshold would not be required for restructurings that create needed flexibility to achieve financing program goals. A second limiting factor on advance refundings will be that negative arbitrage (the amount of additional funds that need to be deposited into an escrow to make up for interest earnings being less than the interest on the defeased bonds) will be no greater than the amount of the net present value savings. For purposes of calculating net present value savings the discount rate will be all-in True Interest Cost ("TIC").

The District will not capture any savings from the refunding for its operating budget or for funding additional capital projects (i.e., no "cash-out" refundings).

Internal Controls (Government Code 8855(i)(1)(E)

The Superintendent or designee shall establish internal control procedures to ensure that the proceeds of any debt issuance are directed to the intended use. Such procedures shall assist the District in maintaining the effectiveness and efficiency of operations, properly expending funds, reliably reporting debt incurred by the District and the use of the proceeds, complying with all laws and regulations, preventing fraud, and avoiding conflict of interest.

(cf. 3314 – Payments for Goods and Services)
(cf. 3400 – Management of District Assets/Accounts)

The District shall be vigilant in using bond proceeds in accordance with the stated purposes at the time such debt was incurred as defined in the text of the voter-approved bond measure (Government Code 53410).

When feasible, the District shall issue debt with a defined revenue source to preserve the use of the general fund for general operating purposes.

In addition, the Superintendent or designee shall ensure that the district completes, as applicable, all performance and financials audits that may be required for any debt issued by the District, including disclosure requirements applicable to a particular transaction.

1. Records/Reports

At least 30 days prior to the sale of any debt issue, or as soon as practicable following Board authorization of a debt issuance, the Superintendent or designee (or bond counsel on behalf of the District) shall submit a report of the proposed issuance to the California Debt and Investment

Advisory Commission (CDIAC). To the extend applicable, such report shall include a self-certification that the District has adopted a policy concerning the use of debt that complies with law and that the contemplated debt issuance is consistent with that policy (Government Code 8855).

Not later than 21 days after the sale of any debt issue, the Superintendent or designee (or bond counsel on behalf of 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 issuer shall provide each of the following documents, if they exist, along with the report of final sale:

a. Other disclosure document.
b. Indenture.
c. Installment sales agreement.
d. Loan agreement.
e. Promissory note.
f. Bond purchase contract.
g. Resolution authorizing the issue.
h. Bond specimen.

On or before January 31 of each year, the Superintendent or designee shall submit a report to the CDIAC regarding the debt authorized, the debt outstanding, and the use of proceeds during the reporting period from July 1 to June 30 of the prior fiscal year for debt issued on or after January 21, 2017 (Government Code 8855).

The Superintendent or designee shall provide initial and any annual or ongoing disclosures required by 17 CFR 240.10b-5 and 240.15c2-12 to the Municipal Securities Rulemaking Board, investors, and other persons or entities entitled to disclosure, and shall ensure that the District's disclosure filings are updated as needed. The Superintendent or designee shall retain a dissemination agent to assist with continuing disclosure obligations, as outlined in the District's continuing disclosure policies and procedures. In addition to minimum disclosure requirements on the Electronic Municipal Market Access ("EMMA") website, the District shall make available on its website annual audited financial statements, budgets, and any other major financial reports and documents pertaining to the District's finances.

The District shall comply with all ongoing responsibilities associated with being an issuer of tax-exempt debt, such as arbitrage rebate requirements and appropriate retention of documents. The District shall maintain or cause to be maintained an appropriate system of accounting to calculate bond investment arbitrage earnings in accordance with the Tax Reform Act of 1986, as amended or supplemented, and applicable United States Treasury regulations related thereto.

The Superintendent or designee shall maintain transaction records of decisions made about each debt issuance, which may include 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. Each transaction file shall include the official transcript for the financing, cash flows, interest rates and cost of issuance on the day when the debt was sold ("final number runs"), and a post-pricing summary of the debt issue. In addition, documentation evidencing the expenditure of proceeds, the use of debt-financed property by public and private entities, all sources of payment or security for the debt, and investment of proceeds shall be kept for as long as the debt is outstanding, plus the period ending three years after the financial payment date of the debt or the final payment date of any obligations or series of bonds issued to refund directly or indirectly all or any portion of the debt, whichever is later.

The Superintendent or designee shall periodically report to the Board regarding debt issued by the District, which may include information on actual and projected tax rates, an analysis of bonding capacity, ratings on the district's bonds, market update and refunding opportunities, new development for California bond financings, and the district's compliance with post-issuance requirements.

Legal Reference:

EDUCATION CODE
5300-5441 Conduct of elections
15100-15262 Bonds for school districts and community college districts
15264-15276 Strict accountability in local school construction bonds
15278-15288 Citizen's oversight committees
15300-15425 School Facilities Improvement Districts
17150 Public disclosure of non-voter-approved debt
17400-17429 Leasing of district property
17450-17453.1 Leasing of equipment
17456 Sale or lease of district property
17596 Duration of contracts
42130-42134 Financial reports and certifications
ELECTIONS CODE
1000 Established election dates
GOVERNMENT CODE
8855 California Debt and Investment Advisory Commission
53311-53368.3 Mello-Roos Community Facilities Act
53410-53411 Bond reporting
53506-53509.5 General obligation bonds
53550-53569 Refunding bonds of local agencies
53580-53595.55 Bonds
53850-53858 Tax and revenue anticipation notes
53859-53859.08 Grant anticipation notes
CALIFORNIA CONSTITUTION
Article 13A, Section 1 Tax limitation
Article 16, Section 18 Debt limit
UNITED STATES CODE, TITLE 15
78o-4 Registration of municipal securities dealers
UNITED STATES CODE, TITLE 26
54E Qualified Zone Academy Bonds
CODE OF FEDERAL REGULATIONS, TITLE 17
240.10b-5 Prohibition against fraud or deceit
240.15c2-12 Municipal securities disclosure
CODE OF FEDERAL REGULATIONS, TITLE 26
1.103 Interest on state and local bonds
1.141 Private activity bonds
1.148 Arbitrage and rebate
1.149 Hedge bonds

Legal Reference: (continued)

1.6001-1 Records

Management Resources:

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION PUBLICATIONS
California Debt Issuance Primer
GOVERNMENT FINANCE OFFICERS ASSOCIATION PUBLICATIONS
An Elected Official's Guide to Debt Issuance, 2nd Ed., 2016
Understanding Your Continuing Disclosure Responsibilities, Best Practice, September 2015
Investment of Bond Proceeds, Best Practice, September 2014
Selecting and Managing Municipal Advisors, Best Practice, February 2014
Debt Management Policy, Best Practice, October 2012
Analyzing and Issuing Refunding Bonds, Best Practice, February 2011
INTERNAL REVENUE SERVICE PUBLICATIONS
Tax Exempt Bond FAQs Regarding Record Retention Requirements
Tax-Exempt Governmental Bonds, Publication 4079, rev. 2016
U.S. GOVERNMENT ACCOUNTABILITY OFFICE PUBLICATIONS
Internal Control System Checklist
WEB SITES
California Debt and Investment Advisory Commission: http://www.treasurer.ca.gov/cdiac
Government Finance Officers Association: http://www.gfoa.org
Internal Revenue Service: https://www.irs.gov
Municipal Security Rulemaking Board, Electronic Municipal Market Access (EMMA): http://www.emma.msrb.org
U.S. Government Accountability Office: http://www.gao.gov
U.S. Securities and Exchange Commission: https://www.sec.gov

Policy
adopted: May 30, 2017

SAN DIEGO UNIFIED SCHOOL DISTRICT
San Diego, California