

DEBT ISSUANCE AND MANAGEMENT

The Monterey County Office of Education (MCOE) 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 MCOE facilities and managing cash flow. Any debt issued by the MCOE shall be consistent with law and this policy.

(cf. 3000 - Concepts and Roles)

(cf. 3460 - Financial Reports and Accountability)

The purpose of this policy is to improve the quality of decisions, articulate policy goals, provide guidelines for the structure of debt issuance, and demonstrate a commitment to long-term capital and financial planning.

The MCOE shall not knowingly enter into indebtedness or liability that in any year exceeds the income and revenue provided for such year.

When the Monterey County Superintendent of Schools (County Superintendent) or designee determines it is in the best interest of the MCOE, the County Superintendent or designee may recommend to the Monterey County Board of Education (County Board) to issue debt. The County Superintendent or designee is expected to make recommendations to the County Board regarding appropriate financing methods for capital projects or other projects that are authorized purposes for debt issuance.

When approved by the County Board, it is anticipated that the County Superintendent or designee will administer and coordinate the MCOE'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 County Superintendent or designee should retain a financial advisor, municipal advisor, investment advisor, and other financial services professionals as needed to assist with the structuring of the debt issuance and to provide general advice on the MCOE'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. [Education Code (EC) 17596]

In the event that the County Board 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 MCOE 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)

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

1. The MCOE obtain financing only when necessary.
2. The MCOE use any type of debt financing allowed by California law, so long as the financing meets the standards for appropriateness and efficiency described below.
3. The MCOE use a process for identifying the most appropriate and efficient timing, amount and structure of debt.

Factors to consider when determining the appropriateness of debt are to include the following:

- Why debt rather than cash expenditure is appropriate.
- Annual debt service and debt administration costs.
- The MCOE's financial condition.
- Repayment source, including the amount available and its reliability.
- Legal constraints resulting from the debt (e.g., prepayment terms, reporting requirements).
- Additional future capital needs.
- Type of debt instrument.

Factors to consider when determining efficiency are to include the following:

- Cost of Issuance and residual long-term costs.
 - Future flexibility.
 - Rate and structure of debt service.
4. The MCOE operate with extreme caution, and thoroughly investigate all possible conflicts of interest.
 5. The MCOE will ensure that any required initial and periodic reporting to investors, credit rating agencies, trustees, federal and state agencies, and the County Superintendent of Schools is timely and accurate.

6. The MCOE will review this policy at least annually and update it as needed. Such a review will include a review of the then-current Government Finance Officers Association's (GFOA's) best practices on debt management policy.
7. Maintains accountability for the fiscal health of the MCOE, including prudent management and transparency of the MCOE's financing programs
8. Attains 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
9. 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
10. Maintains effective communication with rating agencies and, as appropriate, credit enhancers such as bond insurers or other providers of credit or liquidity instruments in order to enhance the creditworthiness, liquidity, or marketability of the debt
11. When determining the timing of debt issuance, considers market conditions, cash flows associated with repayment, and the MCOE's ability to expend the obtained funds in a timely, efficient, and economical manner consistent with federal tax laws
12. Determines the amortization (maturity) schedule which will fit best within the overall debt structure of the MCOE at the time the new debt is issued
13. 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
14. Preserves the availability of the MCOE's County School Service Fund for operating purposes and other purposes that cannot be funded by the issuance of voter-approved debt
15. 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 Monterey County Office of Education)

Authorized Purposes for the Issuance of Debt

The MCOE 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 MCOE facilities.
2. To refund existing debt.
3. To provide for cash flow.
(*cf. 3100 - Budget*)

Pursuant to Government Code 53854, general operating costs, including, but not limited to, items normally funded in the MCOE's annual operating budget, shall not be financed from debt payable later than fifteen (15) months from the date of issuance. The MCOE 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

The County Superintendent or designee should recommend to the County Board potential financing method(s) that result in the highest benefit to the MCOE, 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 MCOE to meet its cash flow requirements. [Government Code 53850-53858]
2. 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. [EC 17450-17453.1]
3. Special financing programs or structures offered by the federal or state government, such as Qualified Zone Academy Bonds (QZAB) 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 COPs. COPs, TRANS, revenue bonds, or any other non-voter approved debt instrument shall not be issued by the MCOE in any fiscal year in which the MCOE has a qualified or negative certification, unless the Superintendent of Public Instruction (SPI) determines, pursuant to criteria established by the SPI, that the MCOE's repayment of that indebtedness is probable. [EC 42133]

Relationship of Debt to MCOE's Facilities Program and Budget

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

Structure of Debt Issues

The MCOE shall consider the overall impact of the current and future debt burden of the financing when determining the duration of the debt issue.

The MCOE shall design the financing schedule and repayment of debt so as to take best advantage of market conditions, ensure cost effectiveness, provide flexibility, and, as practical, recapture or maximize its debt capacity for future use. Principal amortization will be structured to meet debt repayment, tax rate, and flexibility goals.

Method of Sale

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

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

Investment of Proceed

The County Superintendent is obligated to 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 and with the permitted securities covenants of related financing documents executed by the County Board. Where applicable, the County Board'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.
(*cf. 3430 - Investing*)

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

Refunding/Restructuring

The MCOE 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 MCOE shall consider the maximization of the MCOE's expected net 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.

Internal Controls

The County Superintendent or designee should establish internal control procedures to ensure that the proceeds of any debt issuance are directed to the intended use. Such procedures shall assist the MCOE in maintaining the effectiveness and efficiency of operations, properly expending funds, reliably reporting debt incurred by the MCOE 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 MCOE Assets/Accounts*)

The MCOE shall be vigilant in using debt proceeds in accordance with the stated purposes at the time such debt was incurred.

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

The MCOE shall annually conduct a due diligence review to ensure its compliance with all ongoing obligations applicable to issuers of debt. Such a review may be conducted by general legal counsel or bond counsel. Any MCOE personnel involved in conducting such reviews shall receive periodic training regarding their responsibilities.

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

Records/Reports

At least thirty (30) days prior to the sale of any debt issue, the County Superintendent or designee is required by law to submit a report of the proposed issuance to the California Debt and Investment Advisory Commission (CDIAC). Such report shall include a self-certification that the County Board 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]

On or before January 31 of each year, the County Superintendent or designee is to submit a report to the CDIAC regarding the debt authorized, the debt outstanding, and the use of proceeds of the issued debt for the period from July 1 to June 30. [Government Code 8855]

The County Superintendent or designee should maintain transaction records of decisions made in connection with each debt issuance, including 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, 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 of any portion of the debt, whichever is later.

The County Superintendent or designee is requested to annually report to the County Board regarding debts issued by the MCOE, including information on actual and projected tax rates, an analysis of bonding capacity, ratings on the MCOE's bonds, market update and refunding opportunities, new development for California bond financings, and the MCOE's compliance with post-issuance requirements.

Legal References:

EDUCATION CODE

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| <i>17150</i> | <i>Public disclosure of non-voter-approved debt</i> |
| <i>17400-17429</i> | <i>Leasing of district property</i> |
| <i>17450-17453.1</i> | <i>Leasing of equipment</i> |
| <i>17456</i> | <i>Sale or lease of district property</i> |
| <i>17596</i> | <i>Duration of contracts</i> |
| <i>42130-42134</i> | <i>Financial reports and certifications</i> |

GOVERNMENT CODE

8855 *California Debt and Investment Advisory Commission*
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
1.6001-1 Records