

DEBT ISSUANCE AND MANAGEMENT

SOUTH PASADENA UNIFIED SCHOOL DISTRICT

This Debt Management Policy (the “Policy”) provides written guidelines for the issuance of indebtedness by the South Pasadena Unified School District (the “District”) in satisfaction of the requirements of S.B. 1029, codified as part of Government Code Section 8855.

Article I**Purpose and Goals**

This Policy provides a framework for debt management and capital planning by the District.

This Policy has been developed to meet the following goals:

- (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.

Article II**Purposes for Which Debt Proceeds May be Used****Section 2.01. Purposes for the Issuance of Debt**

A. General. The laws of the State of California (the “State”) authorize the District to incur debt for school improvement projects, to provide for cash flow needs and to refund existing debt. For purposes of this Policy references to debt shall include lease financings which, although not technically debt within the meaning of the California Constitution, are often used to finance capital improvements of school districts and require payment in a manner similar to debt.

B. School Facilities. The District is authorized to issue various types of debt to acquire, construct, reconstruct, rehabilitate, replace, improve, extend, enlarge, and equip school facilities owned and operated by the District and proceeds of debt may be used for any of such purposes.

C. Cash Flow. 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. The proceeds of such debt will be used to fund District operating costs until the debt is repaid from the taxes and other sources of revenues pledged to repayment are received by the District. General operating costs include, but are not limited to, those items normally funded in the District's annual operating budget.

D. Refundings. The District is authorized to issue debt to refund previously issued debt. Proceeds of refunding debt will be applied to refund previously issued debt and pay costs of issuance related to refunding debt. Generally refunding debt will be issued to reduce debt service costs to the District but the District may issue refunding debt to restructure other debt if determined by the Board of Education (the "Board") to be in the best interests of the District.

Section 2.02. State Law

A. Debt Limit. Section 18 of Article XVI of the State Constitution contains the "debt limitation" provisions applicable to the District.

B. General Obligation Bonds. There are a number of State laws that govern the issuance of general obligation bonds ("GO Bonds") by school districts. Sections 1(b)(2) (Proposition 46) and 1(b)(3) of Article XIII A (Proposition 39) of the State Constitution allow the District to issue GO Bonds. The statutory authority for issuing GO Bonds, as well as bond anticipation notes ("BANs"), is contained in Education Code Section 15000 *et seq.* Additional provisions applicable only to Proposition 39 GO Bonds are contained in Education Code Section 15264 *et seq.* An alternative procedure for issuing GO Bonds is also available in Government Code Section 53506 *et seq.* The District may also issue refunding GO Bonds pursuant to Government Code Section 53550 *et seq.*

C. Other Financing Authority. The statutory authority for issuing Tax and Revenue Anticipation Notes ("TRANs") is contained in Government Code Section 53850 *et seq.* Authority for lease financings is found in Education Code Section 17455 *et seq.* and additional authority is contained in Education Code Sections 17400 *et seq.*, 17430 *et seq.* and 17450 *et seq.*, and Government Code 4217.10 *et seq.* The District may also issue Mello-Roos bonds pursuant to Government Code Section 53311 *et seq.*

Article III

Types of Debt That May be Issued

Section 3.01. Types of Debt Authorized to be Issued

A. Short-Term. The District may issue fixed-rate and/or variable rate short-term debt, to enable the District to meet its cash flow requirements. Potential financing sources for cash flow needs include TRANs issued by the District, temporary borrowing from the Los Angeles County Treasurer and Tax Collector, and temporary interfund borrowing from other District funds. The District's Superintendent, or Assistant Superintendent, Business Services ("CBO"), will review potential financing methods to determine which method is most prudent

for the District and recommend an approach to the Board. The District may also issue BANs to provide interim financing for school facilities projects that will ultimately be paid from GO Bonds.

B. Long-Term: Long-term debt may be issued to finance site acquisition, capital facilities projects and 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 will typically take the form of lease financing, GO Bonds or Mello-Roos bonds as described in paragraphs C, D and E below.

C. Lease Financing. Lease-purchase obligations are a routine and appropriate means of financing equipment purchases and capital facilities. However, such lease-purchase obligations may impact on budget flexibility as they generally are paid from General Fund moneys. Lease financings may take the form of a direct placement with a lessor or be coupled with the issuance of certificates of participation or lease revenue bonds purchased by investors.

D. 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 Bond proceeds will be determined by the constraints of applicable law and the project list approved by voters. 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.

E. Mello-Roos Bonds: The District may elect to form a Mello-Roos community facilities district (the "CFD") over all or a portion of the District and, subject to voter or landowner approval as determined by statute, may issue debt to be repaid from special taxes levied on property within the District to finance equipment and capital facilities.

Article IV

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

Section 4.01. Impact on Operating Budget

In considering the issuance of debt for capital projects, the District should evaluate how the issuance will further the implementation of the District's capital improvement program and impact its operating budget both short and long-term. 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.

Section 4.02. Capital Improvement Program

In considering the issuance of debt for capital projects, the District should evaluate how the issuance will further the implementation of the District's capital improvement program. The CBO 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 Board. Staff will, as appropriate, supplement and revise any applicable Facilities Master Plan (or similar document) in keeping with 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, schedules for the projects, the expected quarterly cash requirements, and annual appropriations, in order for the projects to be completed. The District should strive not to issue debt earlier than it is needed to meet the facilities needs outlined in the Facilities Master Plan (or similar document).

Section 4.03. Impact on Operating Budget

In considering the issuance of debt for capital projects, the District should evaluate how the issuance of the debt and the addition of new facilities will impact its operating budget both short and long-term. Factors to be considered are the potential impact of debt service on the operating budget and any additional costs associated with equipping, furnishing and operating to be paid for from the operating budget. The cost of debt issued for major capital repairs or replacements may be judged against the potential cost of delaying such repairs and potential adverse impacts on the District's educational program due to such debt service costs.

Section 4.04. Refunding and Restructuring Policy

A. Considerations for Refunding and Restructuring District Debt.

1. District's Best Interest. Whenever deemed to be in the best interest 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 will provide added flexibility to District operations.

2. Net Present Value Analysis. The CBO 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. In cases where the refunding results in net present value debt service savings, the CBO may make a recommendation to the Board as to how to structure the receipt of savings over time. In the case of a restructuring where there are no debt service savings, the CBO shall provide to the Board an explanation as to how the restructuring will benefit District operations.

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

Article V

Policy Goals Related to District's Planning Goals and Objectives

In following this Policy, the District shall pursue the following goals:

1. The District shall strive to fund capital improvements from voter-approved GO Bond or Mello-Roos issues to preserve the availability of its General Fund for District operating purposes and other purposes that cannot be funded by such bond issues.
2. 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.
3. The District shall inform itself as to the standards applied by credit rating agencies to its debt and will seek to avoid any financial decision that will negatively impact credit ratings on existing or future debt issues.
4. The District shall, with respect to GO Bonds, undertake bond issues that are consistent with its statutory debt limit in relation to assessed value within the District and will assume reasonable levels of assessed valuation growth in projecting the tax rate needed to repay such debt.
5. The District shall consider market conditions and District cash flows when timing the issuance of debt.
6. 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. All debt issued by the District shall mature within the limits set forth in applicable provisions of the Education Code or the Government Code.
7. The District shall set the duration of a long-term debt issue to be consistent, to the extent possible, with the economic or useful life of the improvement or capital asset being financed. Generally, the final maturity of the debt shall be equal to or less than the useful life of the assets being financed, and 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.
8. The District shall, when issuing debt, assess opportunities to include new and innovative financing approaches, including whenever feasible, categorical grants, revolving loans or other State/federal aid, including State matching funds for facilities, so as to minimize the encroachment on the District's General Fund.

9. 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.

10. 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 maximize its debt capacity for future use.

11. The District shall consider the following guidelines when issuing debt:

a. *New Money Bond Issuances:* For new money debt issuances, the District shall size all tax-exempt issuances consistent with the “spend-down” requirements of the Internal Revenue Code and within any limits approved by the District’s voters.

b. *Refunding Bond Issuances:* The sizing of refunding bonds will be determined by the amount of money that will be required to pay the principal of and any accrued interest and redemption premium for the debt to be paid on the debt being defeased and to cover appropriate financing costs.

Article VI

Internal Control Procedures to Ensure Intended Use of Proceeds

Section 6.01. Control Procedures

A. Purpose. The purpose of the District's internal control procedures with respect to debt issuances is to ensure that the District complies with all requirements set forth in the controlling documents pursuant to which any debt is issued and that the proceeds are spent for the intended purposes authorized by the District when approving the debt issuance.

B. Responsible Officer. The CBO is the officer of the District with primary responsibility for ensuring compliance with this Policy and with the requirements contained in the controlling documents pursuant to which any debt is issued. The CBO may assign other appropriate District personnel to assist in the CBO in carrying out this responsibility.

C. Procedures for Debt Administration. The CBO shall establish procedures for the administration of debt which shall include maintaining an inventory of outstanding debt and a list of covenants in the issuance documents to be complied with by the District after the issuance date. Periodically the CBO, or his or her designee, shall review and update the procedures as needed and shall review and update the inventory of outstanding debt and list of covenants.

D. Procedures for Disbursement of Funds. The CBO shall be responsible for applying the same system of internal controls to the proceeds of debt issuances as it does to all other District funds.

E. Monitoring of Post-Issuance Compliance. The CBO shall be primarily responsible for ensuring that the District complies with its debt covenants including taking steps to confirm that:

1. The funds and accounts required by the debt issuance documents are established in the District's accounting system to record the receipt and disbursement of proceeds and the payment of debt service.

2. Any funds or accounts to be held by a trustee for any District debt are established in accordance with the debt issuance documents and that the trustee statements are reconciled periodically with District records.

3. Expenditures of the proceeds of debt are processed pursuant to appropriate separation of duties or other appropriate controls established by the District.

4. District and any trustee records related to the debt issuance including records relating to the investment and disbursement of proceeds are being maintained in accordance with the covenants in the debt issuance documents.

5. For tax-exempt debt, all covenants in the tax certificate related to timing of the disbursement of proceeds, arbitrage rebate and yield restriction and use of facilities financed with the tax-exempt proceeds are being followed.

6. Any required continuing disclosure annual reports are prepared in a timely manner and are complete and filed with the Municipal Securities Rulemaking Board's EMMA website and that any listed event notices are filed in a timely manner.

Section 6.02. Use of Proceeds

A. The District shall be vigilant in using the proceeds of any debt issuance in accordance with the stated purposes at the time such debt was incurred. In furtherance of the foregoing, and in connection with the issuance of all GO Bonds:

1. 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

2. The CBO shall have the responsibility, no less often than annually, to provide to the Board 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 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. 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.

3. 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.

4. 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.

Section 6.03. Monitoring of Post-Issuance Compliance

A. The CBO shall be primarily responsible for ensuring that the District complies with its debt covenants including taking steps to confirm that:

1. The funds and accounts required by the debt issuance documents are established in the District's accounting system to record the receipt and disbursement of proceeds and the payment of debt service.

2. Any funds or accounts to be held by a trustee for any District debt are established in accordance with the debt issuance documents and that the trustee statements are reconciled periodically with District records.

3. Expenditures of the proceeds of debt are processed pursuant to appropriate separation of duties or other appropriate controls established by the District.

4. District and any trustee records related to the debt issuance including records relating to the investment and disbursement of proceeds are being maintained in accordance with the covenants in the debt issuance documents.

5. For tax-exempt debt, all covenants in the tax certificate related to timing of the disbursement of proceeds, arbitrage rebate and yield restriction and use of facilities financed with the tax-exempt proceeds are being followed.

6. Any required continuing disclosure annual reports are prepared in a timely manner and are complete and filed with the Municipal Securities Rulemaking Board's EMMA website and that any listed event notices are filed in a timely manner.

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Debt Issuance and Management Policy
Adopted on February 14, 2017