



# SACRAMENTO CITY UNIFIED SCHOOL DISTRICT BOARD OF EDUCATION

Agenda Item 12.4

**Meeting Date:** April 6, 2017

**Subject:** Approve Board Policy (BP) 3470 Debt Issuance and Management

- ☐ Information Item Only
- ☐ Approval on Consent Agenda
- ☐ Conference (for discussion only)
- ☐ Conference/First Reading (Action Anticipated: \_\_\_\_)
- ☐ Conference/Action
- ☒ Action
- ☐ Public Hearing

**Division:** Business Services

**Recommendation:** Approve Board Policy (BP) 3470 Debt Issuance and Management.

**Background/Rationale:** On November 6, 2012, voters within the District authorized two general obligation bond measures known as Measure Q and Measure R. The bond measures authorize the District to issue general obligation bonds in the aggregate amount of \$414 million to finance capital projects, facility upgrades, technology, and supporting infrastructure. The District and the Board are in the process of taking actions to issue 2017 Series E Bonds for Measure Q and 2017 Series C Bonds for Measure R.

During the 2016 California Legislative Session, the Legislature enacted Senate Bill 1029. The purpose of SB 1029 is to enhance the transparency and accountability related to debt issuance practices. It became effective on January 1, 2017, and requires issuers to certify that they have adopted local debt policies and to certify that debt issued is consistent with the adopted policies.

The proposed policy conforms to the new statutory requirements and reflects generally accepted practices and existing requirements that apply to debt issuance.

**Financial Considerations:** NA

**LCAP Goal(s):** Operational Excellence

**Documents Attached:**

1. Executive Summary
2. Board Policy (BP) 3470 Debt Issuance and Management

**Estimated Time of Presentation:** 5 Minutes

**Submitted by:** Gerardo Castillo, CPA, Chief Business Officer

**Approved by:** José L. Banda, Superintendent

# Board of Education Executive Summary

## Business Services

Board Policy (BP) 3470

April 6, 2017



### I. OVERVIEW / HISTORY

On November 6, 2012, the district received authorization, by more than fifty-five percent of the votes cast by eligible voters, to issue Measure Q General Obligation Bonds (Measure Q Bonds) in the amount of \$346 million and Measure R General Obligation Bonds (Measure R Bonds) in the amount of \$68 million.

Measure Q provides for the upgrading of classrooms; science labs; computer systems and technology; renovating heating and ventilation systems; improving student safety and security systems; and repairing roofs, restrooms, floors and plumbing.

Measure R provides for improving physical education facilities and bathrooms; repair irrigation systems and water drainage; removing asbestos, lead paint and other unsafe conditions; upgrading kitchen facilities to improve nutrition and nutritional education and safety improvements to all schools

To date, the District has issued approximately \$146 million of Measure Q Bonds and \$27.1 million of Measure R Bonds. The 2017 issuance will be the fifth issuance of Measure Q Bonds and the third issuance of Measure R Bonds.

To enhance transparency and accountability, the State Treasurer made public policy recommendations that the California Legislature adopted through Senate Bill No. 1029 (SB 1029). SB 1029 was signed by Governor Brown on September 12, 2016. It became effective on January 1, 2017.

SB 1029 requires school districts to certify to the California Debt and Investment Advisory Commission ("CDIAC") that they have adopted local debt management policies prior to issuing debt and to certify that the debt is consistent with the adopted policies. CDIAC acts a statistical clearing house for all state and local debt issuance. In addition to adopting local debt management policies, the District will be required to provide CDIAC with annual transparency reports.

The proposed policy conforms to the requirements of SB 1029 and reflects generally accepted practices and existing requirements that apply to debt issuance.

# Board of Education Executive Summary

## Business Services

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April 6, 2017



### II. DRIVING GOVERNANCE

- California Government Code Section 8855 California Debt and Investment Advisory Commission

### III. BUDGET

There is no significant impact on the District's General Fund. The District will be required to file annual reports with CDIAC. Such reports are related to debt issuance and can be paid from bond funds.

### IV. GOALS, OBJECTIVES, AND MEASURES

As part of the district's legal responsibility for complying with the new law, the District will need to enact BP 3470 in order to issue General Obligation Bonds. BP 3470 is designed to improve transparency and accountability. The district's financial advisor from Capitol PFG will be available to answer any questions regarding the new policy.

### V. MAJOR INITIATIVES

Transparency and accountability regarding the issuance and ongoing reporting related to outstanding debt.

### VI. RESULTS

NA

### VII. LESSONS LEARNED/NEXT STEPS

The attached documents were presented to the Board as a conference/first reading at the March 16, 2017 Board Meeting. This item is now being presented to the Board on April 6, 2017 for action.

# **Sacramento City Unified School District**

## **Board Policy 3470 Debt Issuance and Management Policy**

### **Purpose and Framework for Debt Management**

This Debt Management Policy provides a framework for debt management and capital planning by the district.

The Governing Board 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)*

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 approve the obligation or one of the exceptions specified in law applies. (California Constitution, Article 16, Section 18). Exceptions include, but are not limited to, lease financings, such as lease purchase agreements, certificates of participation, lease revenue bonds and notes, and grant anticipation notes. Further, under Proposition 39, a measure authorizing the issuance of general obligation bonds may be approved by 55 percent of the electorate. The district may also issue debt through Mello-Roos Community Facility Districts.

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.

### **Financial Advisors/Underwriters**

The Superintendent or designee shall 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 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. In the event that 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. Financial advisors shall be registered with the

Securities & Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB).

*(cf. 3312 - Contracts)*

*(cf. 3600 - Consultants)*

*(cf. 9270 - Conflict of Interest)*

### **Goals of Debt Management Policy**

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 in order 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 insurers or other providers of credit or liquidity instruments in order 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. When determining the timing of debt issuance, 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
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)*

### **Authorized Purposes for the Issuance of Debt**

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)*

### **Operating Cash Flow**

Pursuant to Government Code 53854, 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 13 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. See also Tax and Revenue Anticipation Notes (TRANs) below.

### **Authorized Types of Debt**

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 TRANs, when necessary to allow the district to meet its cash flow requirements (Government Code 53850-53858)
  - 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 5331-53368) or other funding sources that are reasonably available to meet the district's repayment requirements.
  - 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 13A, Section 1; Education Code 15100-15262, 15264-15276; Government Code 53506-53509.5). In appropriate circumstances, the District may use School Facilities Improvement Districts as an alternative method of issuing general obligation bonds.  
  
*(cf. 7214 - General Obligation Bonds)*
  - b. Special tax bonds issued pursuant to the Mello-Roos Community Facilities Act of 1982 (Government Code 53311-53368.3)  
  
*(cf. 7212 - Mello Roos Districts)*
3. Lease financing, including certificates of participation (COPs)
  - a. Lease financing to fund 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 practical or unavailable (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

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)

#### **Relationship of Debt to District 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 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 cost of debt issued for major capital repairs or replacements shall be evaluated against the potential cost of delaying such repairs and/or replacing such facilities.

When considering a debt issuance, the Board and the Superintendent or designee may evaluate both the short-term and long-term implications of the debt issuance and additional operating costs associated with the new projects involved. Such evaluation may include the tax burden on the district's taxpayers; the effect of annual debt service secured by the general fund on general fund expenditures; the amortization structure, prepayment features, and useful life of the projects being financed (for further information see "Structure of Debt Issues" below).

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.

### **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 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.

For 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, as long as the issuance 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 or Education Code 15106.

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 mature within the term 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)

### **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:



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 district 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 district than either a negotiated or competitive sale

### **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 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.

*(cf. 3430 - Investing)*

With regard to general obligation bonds, the district shall invest new money bond proceeds in the county treasury pool 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 so as to ensure liquidity and minimize risk.

### **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 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 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 in order to preserve the use of the general fund for general operating purposes.

The district 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 bond counsel. Any district personnel involved in conducting such reviews shall receive periodic training regarding their responsibilities.

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

### **Records/Reports**

At least 30 days prior to the sale of any debt issue, the district's Bond Counsel shall 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 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)

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 of the issued debt for the period from July 1 to June 30, or the prior fiscal year. (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. The district may retain a qualified third party to assist with the district's disclosure filings.

The Superintendent or designee shall seek the advice of bond counsel on compliance with federal tax law. The federal tax law is intended to discourage entities from issuing tax advantaged obligations that are unnecessary in terms of timing and amount as well as for purposes that are not permitted by law. The district's bond counsel and financial advisor will review, in advance, all arbitrage rebate filings and forms sent to the Internal Revenue Service.

The Superintendent or designee shall maintain transaction records including the official transcript, documentation evidencing the expenditure of proceeds, the use of debt-financed property by public and private entities, and investment of proceeds for as long as the debt is outstanding, plus the period ending three years after the final payment date of obligations issued.

*Legal References:*

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*

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*

*Management Resources continued: (see next page)*

*Management Resources (continued)*

**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 Reference UPDATE Service 12/16**

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