

## YOLO COUNTY BOARD OF EDUCATION

### BUSINESS AND NONINSTRUCTIONAL OPERATIONS

#### DEBT ISSUANCE AND MANAGEMENT

The Yolo County Office of Education (YCOE) is committed to long-term capital and financial planning and recognizes that the issuance of debt can be a source for funding the improvement and maintenance of YCOE facilities and managing cash flow. Any debt issued by the YCOE shall be consistent with law and this policy.

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.

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

This debt policy sets forth comprehensive guidelines for financing capital expenditures, as well as for addressing short-term cash flow needs. The objectives of this policy are that:

1. The YCOE obtain financing only when necessary.
2. The YCOE use any type of debt financing allowed by California law (certificates of participation, lease-purchase financings, tax and revenue anticipation notes, temporary transfers from the county treasury or county superintendent of schools), so long as the financing meets the standards for appropriateness and efficiency described below.
3. The YCOE 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 YCOE'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 YCOE operate with extreme caution, and thoroughly investigate all possible conflicts of interest.
  5. The YCOE will ensure that any required initial and periodic reporting to investors, credit rating agencies, trustees, federal and state agencies is timely and accurate.
  6. The YCOE 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.

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

The YCOE 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 YCOE facilities.
2. To refund existing debt.
3. To provide for cash flow.

Pursuant to Government Code (GC) 53854, general operating costs, including, but not limited to, items normally funded in the YCOE's annual operating budget, shall not be financed from debt payable later than fifteen (15) months from the date of issuance. The YCOE 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 YCOE, 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 YCOE to meet its cash flow requirements. [GC 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. COPs, TRANS, revenue bonds, or any other non-voter approved debt instrument shall not be issued by the YCOE in any fiscal year in which the YCOE has a qualified or negative certification, unless the Superintendent of Public Instruction (SPI) determines, pursuant to criteria established by the SPI, that the YCOE's repayment of that indebtedness is probable. [EC 42133]

## Relationship of Debt to YCOE'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 YCOE property and facilities as identified in the YCOE'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 YCOE shall consider the overall impact of the current and future debt burden of the financing when determining the duration of the debt issue.

The YCOE 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 YCOE. 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 YCOE than either a negotiated or competitive sale.

## **Investment of Proceeds**

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.

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

## **Refunding/Restructuring**

The YCOE 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 YCOE shall consider the maximization of the YCOE's expected net savings over the life of the debt issuance.

## **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 YCOE in maintaining the effectiveness and efficiency of operations, properly expending funds, reliably reporting debt incurred by the YCOE and the use of the proceeds, complying with all laws and regulations, preventing fraud, and avoiding conflict of interest.

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

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

The YCOE 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 YCOE personnel involved in conducting such reviews shall receive periodic training regarding their responsibilities.

In addition, the County Superintendent or designee should ensure that the YCOE completes, as applicable, all performance and financial audits that may be required for any debt issued by the YCOE, 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 the law and that the contemplated debt issuance is consistent with that policy. [GC 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. [GC 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.

The County Superintendent or designee is requested to annually report to the County Board regarding debts issued by the YCOE.

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