

## BOARD POLICY

## A. Funds, Investment of

The district's primary investment objective shall be to maintain the safety and liquidity of its funds. Safety of principal is the foremost objective of the district. Investment factors that shall be considered, in order of descending importance, are the following:

- Safety of invested funds;
- Sufficient liquidity to meet cash flow requirements; and
- Maximum yield consistent with federal, state, and local laws, and prudent management practices.

In addition, any issuance of debt shall require the authorization of the Board of Education and must comply with all applicable state and federal laws, including federal and state securities laws.

The superintendent, or designee, shall be responsible for all decisions and activities performed under the district's investment policy to optimize the safety and liquidity of the district's investment portfolio.

## B. Legal Constraints

Pursuant to California Education Code Section 41001, the district shall deposit all funds received or collected from any source into the Orange County Treasury, to be placed to the credit of the proper Fund of the district within the protections afforded by California Government Code Section 27100.1.

Pursuant to California Education Code Section 41015, the district may invest all or part of funds deposited in a Special Reserve Fund or any surplus monies not required for immediate necessities in any of the investments specified in California Government Code Sections 16430 and 53601. Special Reserve Funds are defined as those funds which the Governing Board has designated for capital outlay or other purposes where an accumulation over a period of fiscal years is desired.

C. Authorized Investments

The district shall make investments in the context of the “Prudent Investor Rule” (Probate Code 16047, Government Code 53600.5), which in substance states that:

“Investment shall be made with the judgement and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence, exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.”

Those funds maintained in a Special Reserve Fund or any surplus funds not required for immediate necessities shall be available for investment under the following conditions:

1. The Orange County Investment Pool(s) established by the Orange County Treasurer, for the benefit of local agencies and/or schools. The district may invest up to one-hundred percent (100%) of its funds available for investment in the Orange County Investment Pool(s).
2. The Local Agency Investment Fund established by the California State Treasurer for the benefit of local agencies. The district may invest up to one- hundred percent (100%) of its funds available for investment in the Local Agency Investment Fund.
3. To the extent that the district directs the investment of its funds to specific securities, those securities shall be limited to the securities identified in California Government Code Section 53601. However, the district will not, under any circumstances, direct the investment of its funds to reverse repurchase agreements.

Monies received for the purposes listed below may be deposited outside of the County Treasury in a bank or other financial institution as authorized by the Board in fully insured or collateralized accounts or instruments:

- Cash Clearing Account
- Revolving Cash Account
- Trust Account
- Cafeteria Account
- Associated Student Body Account

D. Investment Reviews

The district chief business official will prepare and present quarterly reports on investments to the superintendent and the Governing Board for review.

E. Debt Management Policy

1. Purpose:

The purpose of this Debt Management Policy is to provide functional tools for both short term and long term debt management and capital planning and objectives, as well as to enhance the District's ability to manage its debt and lease financings in a conservative and prudent manner.

2. Position:

The Board of Education intends that the District establish and maintain a framework for public finance borrowings such as general obligation bonds ("GO Bonds"), lease financings, tax and revenue anticipation notes ("TRANS") and other forms of indebtedness by the District.

- a. The issuance of debt by the District is an appropriate and necessary method of financing capital projects, providing working capital and financing certain capital equipment purchases over time.
- b. Careful and consistent monitoring of such debt issuance is required to preserve the District's credit strength, budget and financial flexibility.

3. In following this policy, the District shall pursue the following debt management goals.
  - a. When funding capital improvements, working capital, or equipment, the District will review all funding sources and determine the best source based on need and use of items being financed. For capital projects the District will review the capital improvement program to determine if debt issuance is the best source of funding given the overall capital improvement program and budget.
  - b. The District shall endeavor to attain the best possible credit strategy for each debt issue (with or without credit enhancement) in order to reduce interest costs, within the context of preserving financial flexibility and meeting capital funding requirements.
  - c. The District shall remain mindful of debt limits in relation to assessed value changes within the District and the tax burden needed to meet long-term capital requirements.
  - d. The District shall consider market conditions and District cash flows when timing the issuance of debt.
  - e. The District shall determine the amortization (maturity) schedule which will best fit with the overall debt structure of the District at the time new debt is issued.
  - f. The District shall give consideration to matching the term of the debt issue to the useful lives of related assets whenever practical, while considering repair and replacement costs of those assets to be incurred in future years as an offset to the useful lives, and the related length of time in the payout structure.
  - g. The District shall, when planning for the issuance of new debt, consider the impact of such new debt on overlapping debt and the financing plans of local, state and other governments which overlap with the District.
  - h. The District shall, when issuing debt, assess financial alternatives to include new and innovative financing approaches whenever feasible, such as categorical grants, revolving loans or other state/federal aid, so as to minimize the encroachment on the District's general fund and the tax burden.



- iv. The District may issue long-term debt which may include, but is not limited to, GO Bonds, lease financings, including Lease Revenue Bonds, Certificates of Participation, and/or other capital lease-purchase structures for capital facilities, projects and certain capital equipment.
- v. In the event the District has outstanding long-term debt in the form of lease financing structures if and when referendum-approved debt proceeds become available, the District may, if authorized, use a portion of such proceeds to redeem or defease such outstanding debt. In doing so, the District recognizes that voter-approved long-term debt is generally the lowest cost borrowing available to the District.

#### 5. Limitation of Debt

- a. The District intends to comply with California Education Code Section 15106 which limits the District's total outstanding debt (i.e., principal portion only) to 2.50% of the assessed valuation of the taxable property of the District. TRANs and lease payment obligations in support of lease financings generally do not count against this limit except as provided in California Education Code Section 17422.
- b. Limitations on the size of a TRANs issue shall be based on a conservative calculated cash deficit as best known at the time of issue.

#### 6. Structure of Debt Issues

- a. Relation of Debt to District Budget – The District shall review and consider its existing capital improvement/facilities plan when issuing debt.
- b. Maturity of Debt – The District shall structure debt to mature in compliance with Section 147 (b) of the Internal Revenue Code (or any successor thereto) and the applicable provisions of both the Education Code and Government Code.

- c. Debt Service Structure – 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 recapture or achieve its best credit rating for future use. Annual debt service payments shall generally be amortized on a level basis or consistent with either revenue or budget demands, or in the case of GO Bonds, consistent with conservative growth expectations for assessed valuation and taking into consideration both existing and future GO Bond issuances.
- d. Call Provisions – The Chief Business Official, based upon analysis from the underwriters and financial advisors of the economics of callable versus non-callable features, shall set forth redemption and/or prepayment recommendations for each debt issue.
- e. Credit Enhancement – The District may enter into credit enhancement agreements such as municipal bond insurance, reserve sureties, and letters of credit with commercial banks, municipal bond insurance companies, or other financial entities when such enhancement results in lower borrowing costs, eliminates restrictive covenants, or has a net economic benefit to the debt issuance. The District shall use a competitive process to select providers of such credit enhancements to the extent applicable.

## 7. Sale of Securities

- a. Public Sale – There are two methods of a public sale of debt, competitive and negotiated. Both methods of sale shall be considered for all issuances of debt to the extent allowed by law, as each method has the potential to achieve the lowest financing cost given the right conditions.
  - i. Competitive Sale – When a competitive bidding process is deemed the most advantageous method of sale for the District, award shall be based upon, among other factors, the lowest offered True Interest Cost (“TIC”).
  - ii. Negotiated Sale – When a negotiated sale process is deemed the most advantageous method of sale for the District, selection shall be based upon, among other factors, qualifications, experience, pricing ability, and fees.

- b. Private Placement – While not used as frequently as negotiated or competitive public sale methods, a private placement sale may be appropriate when the financing can or must be structured for a single or limited number of purchasers.

#### 8. Financing Team Members and Roles

- a. Independent Financial Advisor – Irrespective of the nature of the sale of securities (competitive or negotiated), the District shall select and retain a general financial advisory team led by an experienced independent financial advisor to provide advice on the District's debt management program, debt issuance structure, rating agency relations, credit enhancement decisions and other transaction details. The Independent Financial Advisor shall be the point person.
- b. Bond Counsel – The District shall select and retain a bond counsel who shall, in addition to preparing Board of Education resolutions, bond documents and providing tax advice on specific debt transactions, actively participate in the District's debt management program and the structuring of debt issuance.
- c. Disclosure Counsel – The District shall select and retain a disclosure counsel. In doing so, the District recognizes the importance of accurate and adequate disclosure and the relationship between District staff and disclosure counsel retained directly by the District.
- d. County Treasurer – The District recognizes the expertise of the County Treasurer's staff in structuring debt and investments related to public financing and, where appropriate, shall include the County Treasurer or designee in correspondence and activities of the financing team when appropriate.
- e. Other Team Members – The District, upon the counsel of staff and Independent Financial Advisor, shall select and retain other qualified and needed financing team members as may be required to fulfill the District's obligations related to the District's debt management program. Other financing team members may include: continuing disclosure consultant, continuing disclosure review consultant, continuing disclosure dissemination agent, trustee / fiscal agent, paying agent and bond registrar, credit enhancement provider, reserve surety policy provider, economic analyst and/or data analyst, and arbitrage rebate service provider.



## 9. Selection of Financing Team Members

- a. The makeup of financing team members is one of the most important aspects of the District's debt management program. The financing team members are recognized as the technical experts in their subject matter. Qualifications of the individuals and corporate team are imperative; however, proper fit based on a relationship of trust and workability between the District and financing team members is also critical. From time to time the District will evaluate the need to revisit the team but the initial selection shall be based on the following process.
- b. Selection of Independent Financial Advisor, Bond Counsel and Disclosure Counsel shall be based on a written request for proposal (RFP) process that includes a paper screening of written proposals, and an evaluation of selected proposals at an on-site presentation, if necessary.
- c. Selection of Independent Financial Advisor, Bond Counsel and Disclosure Counsel shall be made by the Board of Education, following a recommendation from District Staff, who shall conduct the evaluation of the proposals and presentations, if any.
- d. Qualifications desired and selection criteria shall be set forth in the RFP. Qualifications shall be based on demonstration of successful debt issuance and debt management services to California school districts similar to the District, and may include firm's financial stability, experience and personality of key principals assigned to the District's debt program, and proposed fee basis.
- e. Other members of the financing team shall be selected based on a competitive bid or written RFP when appropriate, depending on the nature of service or product being requested and as may be provided for herein. The selection of other members of the financing team shall be by District staff in consultation with the Independent Financial Advisor and Bond Counsel.
- f. Continuity of a successful financing team is desired; but so too is a periodic review and evaluation of financing team members. To this end, the Chief Business Official shall review the financing team from time to time.

- g. Where appropriate, the District may employ more than one financing team at a time depending on the nature or timing of debt issuance(s).

#### 10. Credit Rating Agencies

- a. In public issuance of debt, the District shall endeavor to attain the best possible credit rating for each debt issue (with or without credit enhancement).
- b. In private placement, the District will consider the debt issuance on its overall credit rating.
- c. The District shall endeavor to maintain effective relations with credit rating agencies.
- d. The District and its financial advisor shall meet with, make presentations to, or otherwise communicate with the credit rating agencies on a regular basis in order to keep the credit rating agencies informed concerning the District's capital project plans, debt issuance program, debt management activities, and other appropriate financial information.

#### 11. Investment Community Relations

- a. The District shall endeavor to maintain positive and effective relations with the investment community to include investors, bondholders, credit enhancers, media, document clearinghouses and other public sources of information.
- b. The District and its Independent Financial Advisor shall, as necessary, prepare reports and other forms of communication regarding the District's indebtedness, as well as its future financing plans.

#### 12. Refunding and Restructuring Outstanding Debt

- a. Whenever deemed to be in the best interest of the District, the District may consider refunding or restructuring outstanding debt. The primary considerations for refunding or restructuring outstanding debt shall be financially advantageous or beneficial structuring.

- b. The financial advantages of refunding outstanding debt shall be based upon a review of a net present value analysis of any proposed refunding in order to make a determination regarding the cost-effectiveness of the proposed refunding.
  - i. Generally, the District may initiate a refunding when four (4.00%) percent net present value or greater savings as a percentage of the refunded aggregate principal amount can be achieved.
  - ii. The target net present value savings as a percentage of the refunded aggregate principal amount shall be no less than three (3.00%) percent at the time of sale. The Chief Business Official shall have the discretion to designate a lower percentage savings if more applicable, such as for transactions with only a few years until maturity or for COPs being defeased or redeemed from proceeds of GO Bonds.

### 13. Internal Controls

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

- a. 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
- b. The Chief Business Official shall have the responsibility, no less often than annually, to provide to the District's Board of Education a written report which shall contain at least the following information:
  - i. The amount of the Bond 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 GO Bonds.

- c. 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 GO Bonds. These requirements shall apply only until the earliest of the following: (i) all the GO Bonds are redeemed or defeased, but if the GO Bonds are refunded, such provisions shall apply until all such refunding bonds are redeemed or defeased, or (ii) all proceeds of the GO Bonds, or any investment earnings thereon, are fully expended.
- d. 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.
- e. 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.
- f. Written requisitions identifying the amount and purpose of a proposed draw of bond or other debt proceeds shall be signed by a District official and submitted to the appropriate officials at the County of Orange or trustee, as applicable.

#### 14. Miscellaneous

- a. The District acknowledges that the capital marketplace fluctuates, municipal finance products change from time to time, and that issuer and investor supply and demand vary. These fluctuations may produce situations that are not anticipated or covered by this policy. As such, the Board of Education may make exceptions or modifications to this policy to achieve the debt management goals outlined above. Management flexibility is appropriate and necessary in such situations, provided specific authorization is granted by the Board of Education.

- b. The Chief Business Official may develop additional specific elements of a debt management framework through rules and regulations which, along with this policy, shall be reviewed periodically in consideration of changing laws, District needs and market conditions.

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#### Debt Issuance and Management Policy

Re: Government Code Sections 53600.3-53646

Adopted: December 3, 1996

Reviewed: July 1, 2000

Revised: December 17, 2002

Revised: February 7, 2017