ADMINISTRATIVE PROCEDURE 6307

DESERT COMMUNITY COLLEGE DISTRICT

DEBT ISSUANCE AND MANAGEMENT

Purpose:

The purpose of this Debt Issuance and Management Procedure is to provide functional tools for debt management, capital planning, and cash flow management in a conservative and prudent manner.

Position:

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

1. 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.

2. Careful and consistent monitoring of such debt issuance is required to preserve the District's credit strength, budget and financial flexibility.

3. PROCEDURE

   a. The purpose of this Debt Issuance and Management Procedure 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.

   b. In following this procedure, the District shall pursue the following debt management goals.

      i. 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.

      ii. For publicly offered debt 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. For some of the District's debt, in particular CFDs, the District may not pursue credit ratings if doing so does not lower the cost of borrowing.

iii. 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.

iv. The District shall consider market conditions and District cash flows when timing the issuance of debt.

v. 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.

vi. 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.

vii. 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.

viii. 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.

4. AUTHORIZATION AND TYPES OF DEBT AUTHORIZED TO BE ISSUED

a. Authority and Purpose of the Issuance of Debt – The laws of the State of California authorize the issuance of debt of the District, and confer upon it the power and authority to make lease payments, contract debt, borrow money, and issue bonds for public improvement projects. Under these provisions, the District

may contract debt to pay for the cost of acquiring, constructing, reconstructing, rehabilitating, replacing, improving, extending, enlarging and equipping District projects and or facilities, or to refund existing debt or to provide for the cash flow needs of the District.

b. Short-Term Debt (maturity of 13 months or less)

i. The District shall generally manage its cash position in a manner so that internally generated cash flow is sufficient to meet general operating needs.

ii. However, the District may issue fixed-rate and/or variable rate short-term debt, which may include TRANs, when such instruments are needed to meet the District's cash flow requirements for operations (working capital).

c. Long-Term Debt (maturity of greater than 13 months)

i. Debt issues may be used to finance capital facilities, projects and certain capital equipment where it is appropriate to spread the cost of the projects over more than one fiscal year.

ii. Projects which are not appropriate for spreading costs over future years shall not be debt financed.

iii. Long-term debt shall, under no circumstances, be used to fund District operations.

iv. The District may issue long-term debt which may include, but is not limited to, GO Bonds, Bond Anticipation Notes, CFDs 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 Vice President of Administrative Services, 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. 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.

9. 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 in structuring for the District.

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 Vice President of Administrative Services 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.

10. 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 procedure, 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 Vice President of Administrative Services shall have the responsibility, no less often than annually, to provide to the District's Board of Trustees 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.

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.

c. 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.

d. 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.

e. 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 Riverside or trustee, as applicable.

11. <u>MISCELLANEOUS</u>

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 procedure. As such, the Board of Trustees may make exceptions or modifications to this procedure 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 Trustees.

b. The Vice President of Administrative Services may develop additional specific elements of a debt management framework through rules and regulations which, along with this procedure, shall be reviewed periodically in consideration of changing laws, District needs and market conditions.

Reference:

Government Code Section 8855 and 53410
Title 4 Sections 6000 et seq.
California Education Code Sections 15106 and 17422
Internal Revenue Code Section 147(b)

Administrator: VP Administrative Services

Executive Cabinet Review/Approval: May 24, 2022
College Planning Council Review/Approval, 1st Reading: September 9, 2022
College Planning Council Review/Approval, 2nd Reading: September 23, 2022
Board Meeting/Information: October 21, 2022
Next Review: November 2027