

BOARD POLICY

Placentia-Yorba Linda Unified School District

Business/Non-Instructional

3432 - BP

DEBT MANAGEMENT AND CONTINUING DISCLOSURE

Introduction

The Governing Board recognizes the importance of having Debt Management Policies (the “Debt Policies”) that provide a framework for public finance borrowing. The Debt Policies provide guidelines for public finance borrowings, ensure careful and consistent monitoring and use of debt issuances and structures, establish debt management goals and help attain the best credit ratings, preserve financial flexibility, meet all capital requirements, and guide the investment of bond proceeds. The Debt Policies set forth herein have been developed to provide guidelines for the issuance of general obligation bonds (“GO Bonds”), certificates of participation (“COPs”), tax and revenue anticipation notes (“TRANS”), and other forms of indebtedness by the Placentia-Yorba Linda Unified School District (“PYLUSD”). It is expected that the Debt Policies will be reviewed before and after each debt issuance by PYLUSD staff and provided periodically to the Board.

While the issuance of debt by the PYLUSD is an appropriate and necessary method of financing capital projects, careful and consistent monitoring of such debt issuance is required to preserve the PYLUSD’s credit strength, budget and financial flexibility. These Debt Policies will serve the PYLUSD in determining the appropriate uses for debt financing, debt structures, and establishing prudent debt management goals.

These Debt Policies are being updated so that they comply with the requirements of Government Code Section 8855(i), enacted January 1, 2017.

Purpose and Goals

The purpose of the Policies is to provide functional tools for debt management and capital planning, as well as to enhance the PYLUSD’s ability to manage its debt and lease financings in a conservative and prudent manner. In following these Policies, the PYLUSD shall pursue the following goals:

- The PYLUSD shall strive to fund capital improvements from referendum-approved bond issues to preserve the availability of its General Funds for PYLUSD operating purposes and other purposes that cannot be funded by such bond issues.
- The PYLUSD shall endeavor to attain the best possible credit rating for each debt issue (with or without bond insurance) in order to reduce interest costs, within the context of preserving financial flexibility and meeting capital funding requirements.
- The PYLUSD shall take all practical precautions and proactive measures to avoid any financial decision which will negatively impact current credit ratings on existing or future debt issues.
- The PYLUSD shall remain mindful of debt limits in relation to assessed value growth within the PYLUSD and the tax burden needed to meet long-term capital requirements.

- The PYLUSD shall consider market conditions and PYLUSD cash flows when timing the issuance of debt. The PYLUSD shall determine the amortization (maturity) schedule which will best fit with the overall debt structure of the PYLUSD at the time the new debt is issued.
- The PYLUSD shall give consideration to matching the term of the issue to the useful lives of assets whenever practicable, 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.
- The PYLUSD 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 PYLUSD.
- The PYLUSD shall, when issuing debt, assess financial alternatives to include new and innovative financing approaches, including whenever feasible, categorical grants, revolving loans or other State/Federal aid, so as to minimize the encroachment on the PYLUSD's General Fund.
- In order to minimize the encroachment on the PYLUSD's General Fund when issuing debt, the PYLUSD will clearly identify the sources of repayment.

Authorization

The laws of the State of California authorize the issuance of debt by the PYLUSD, 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 PYLUSD may contract debt to: pay for the cost of acquiring, constructing, reconstructing, rehabilitating, replacing, improving, extending, enlarging, and equipping such projects; to refund existing debt; or to provide for cash flow needs.

Debt Limitation

Section 15106 of the Education Code limits the unified school district's total outstanding debt (i.e., the principal portion only) to 2.5% of the assessed valuation of the taxable property of a unified district. TRANs and lease payment obligations in support of COPs generally do not count against this limit except as provided in Section 17422 of the Education Code.

Limitation on the size of a TRAN is based on calculated cash deficit. The County of Orange has a temporary transfer program that allows school districts to borrow for operational needs and is based on a similar basis as a TRAN ("County Loan"). When operational loans are needed for cash flow needs, the PYLUSD will evaluate the most effective approach.

Post Issuance Review and Update

The Policies shall be reviewed and updated, if necessary, before and after each bond issuance and made available to the Board for review. The Assistant Superintendent of Business Services or designee is the designated administrator of the Policies and has overall responsibility, with the Board's approval, for decisions related to the structuring of all of PYLUSD's debt issues. The Assistant Superintendent of

Business Services or designee may delegate the day-to-day responsibility for managing the PYLUSD's debt and lease financings. The Board is the obligated issuer of all PYLUSD debt and awards all purchase contracts for GO Bonds, COPs, TRAns, County Loans and any other debt issuances. Structure of Debt Issues:

- A. Maturity of Debt: The duration of a debt issue shall be consistent, to the extent possible, with the economic or useful life of the improvement or asset that the issue is financing. 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.
- B. Debt Service Structure: The PYLUSD 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 maximize its credit for future use. Annual debt service payments will generally be amortized on a level basis, or in the case of GO Bonds, consistent with conservative growth expectations.
- C. Capitalized Interest: Unless required for structuring purposes, or for a non-General Fund debt such as a community facilities district financing, the PYLUSD will avoid the use of capitalized interest in order to avoid unnecessarily increasing the bond size and interest expense. Certain types of financings, such as COPs, may require that interest on the debt be paid from capitalized interest until the PYLUSD has use and possession of the underlying project.
- D. Call Provisions: The Assistant Superintendent of Business Services or designee shall set forth call provisions for each debt issue, based upon the analysis from the underwriters and financial advisors of the economics of callable versus non-callable features.

Sale of Securities

There are two methods of a public sale: competitive or negotiated. Both methods of sale shall be considered for all issuance of debt to the extent allowed by law, as each method has the potential to achieve the lowest financing cost given the right conditions. Any award through negotiation shall be subject to approval by the PYLUSD, generally the Assistant Superintendent of Business Services or designee, to ensure that interest costs are in accordance with comparable market interest rates. When a competitive bidding process is deemed the most advantageous method of sale for the PYLUSD, award will be based upon, among other factors, the lowest offered True Interest Cost ("TIC"). While not used as frequently as negotiated or competitive sale methods, a private placement sale would be appropriate when the financing can or must be structured for a single or limited number of purchasers.

Credit Enhancements

The PYLUSD may enter into credit enhancement agreements such as municipal bond insurance and letters of credit with commercial banks, municipal bond insurance companies, or other financial entities when it results in a lower borrowing cost, eliminates restrictive covenants, or has a net economic benefit to the issuance. The PYLUSD shall use a competitive process to select providers of such products to the extent applicable.

Debt Issued to Finance Operating Costs

The PYLUSD cannot finance general operating costs from debt having maturities greater than thirteen months. However, the PYLUSD may deem it necessary to finance cash flow requirements under certain conditions. Such cash flow borrowings must be payable from taxes, income, revenue, cash receipts and other moneys attributable to the fiscal year in which the debt is issued. General operating costs include, but may not be limited to, those items normally funded in the PYLUSD's annual operating budget and having a useful life of less than one year.

Continuing Disclosure

The PYLUSD shall prepare or cause to be prepared appropriate disclosures as required by the Securities and Exchange Commission Rule 15c2-12, the federal government, the State of California, rating agencies, bond insurers, underwriters, bond counsel, investors, taxpayers, and other persons or entities entitled to disclosure to ensure compliance with applicable laws and regulations and agreements to provide ongoing disclosure. In acknowledgement of significant legal reform and changes to financial regulations in the United States following the 2008 financial crisis, the PYLUSD has developed the "Administrative Regulations for Disclosures Intended or Expected to Reach Investors" (the "Disclosure Policy") in order to provide detailed guidelines to PYLUSD personnel, ensure compliance with the law, reduce liability for misstatements and omissions, and reduce borrowing costs by promoting good investor relations.

The PYLUSD prepares offering documents and enters into continuing disclosure agreements or certificates for its bonds and other financings that require annual updates of financial and operating data and filing of notices of certain events. Under Federal securities laws, the PYLUSD must exercise due care in using public statements to sell bonds and other securities to avoid material misstatements or omissions of fact. Knowledge of any officer or employee of the PYLUSD, as well as information contained in PYLUSD files, may be imputed to the PYLUSD. The Disclosure Policy applies when the PYLUSD makes "Public Statements," including statements or other communications intended or expected to be accessible to and relied upon by investors in connection with PYLUSD bonds, notes or other debt securities. Examples of such Public Statements include official statements and solicitation statements; annual financial and operating data, event notices, and other information filed through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system; website content; press releases, etc. The purposes of the Disclosure Policy include compliance with the law, reducing liability for any misstatements and omissions, reducing borrowing costs by promoting good investor relations and protecting the public from misstatements or omissions made by the PYLUSD. The Disclosure Policy includes procedures to ensure complete and timely disclosure, responsiveness to inquiries made to the PYLUSD, reasonable care in the preparation, dissemination, and filing of disclosure, the opportunity for Board review of documents and statements, and authorization for filings of required information. The PYLUSD shall make available its audited financial statements and annual budgets on its website, and Official Statements will be maintained on the EMMA website so long as PYLUSD debt is outstanding, so that interested persons have a convenient way to locate major financial reports and documents pertaining to the PYLUSD's finances and debt.

Review of Financing Proposals

All capital financing proposals involving a pledge of the PYLUSD's credit through the sale of securities, execution of loans or lease agreements or otherwise directly or indirectly the lending or pledging of the PYLUSD's credit initially shall be referred to the Assistant Superintendent of Business Services or designee who shall determine the financial feasibility of such proposal and make recommendations

accordingly to the Board. When deemed appropriate by the Assistant Superintendent of Business Services or designee it may seek advice from its financial advisor when considering such proposals.

Rating Agency, Bond Insurer and Credit Enhancer Relations

The PYLUSD shall endeavor to maintain effective relations with the rating agencies, bond insurers and credit enhancers. The Assistant Superintendent of Business Services or designee, along with the PYLUSD's financial advisor and underwriter, shall meet with, make presentations to, or otherwise communicate with the rating agencies, bond insurers and credit enhancers on a consistent and regular basis in order to keep the agencies informed concerning the PYLUSD's capital plans, debt issuance program, and other appropriate financial information.

Investment Community Relations

The PYLUSD shall endeavor to maintain a positive relationship with the investment community. The Office of the Assistant Superintendent of Business Services or designee shall, as necessary, prepare reports and other forms of communication regarding the PYLUSD's indebtedness, as well as its future financing plans. This includes information presented to the media and other public sources of information.

Refunding and Restructuring Policy

Whenever deemed to be in the best interest of the PYLUSD, the PYLUSD shall consider refunding or restructuring outstanding debt when financially advantageous or beneficial for structuring. The Assistant Superintendent of Business Services or designee 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.

Generally, the PYLUSD will initiate a refunding when 5.00% net present value or greater savings can be achieved. The target net present value savings as a percentage of the refunded aggregate principal amount shall be no less than 3.00% unless, at the discretion of Assistant Superintendent of Business Services or designee, a lower percentage is 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.

Investment of Borrowed Proceeds

The PYLUSD acknowledges its on-going fiduciary responsibilities to actively manage the proceeds of debt issued for public purposes in a manner that is consistent with California law governing the investment of public funds and with the permitted securities covenants of related bond documents executed by the PYLUSD. Preservation of principal will be the primary goal of any investment strategy followed by the availability of funds, followed by return on investment.

Transaction Records; Internal Controls

The Assistant Superintendent of Business Services or designee shall maintain complete records of decisions made in connection with each financing, 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, the final number runs and a post-pricing summary of the debt issue. The Office of the Assistant Superintendent of Business Services or designee shall timely provide a summary of each financing to the Board.

The District shall establish internal controls to ensure that bond proceeds are used for their intended purpose, consistent with the mandate of the Government Code Sections 53410 (bond proceeds used only for intended purposes), and 53411 (submission of annual reports regarding use of bond proceeds), Education Code Sections 15278 and 15286 (audit of bond proceeds) and Article 13A of the California Constitution (bond funds only for school facilities).

Debt and Capital Improvement Program

Decisions regarding the issuance of debt for the purpose of financing capital improvement shall be aligned with 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. Such plans may include the estimated cost of each project, schedules for the projects, and the expected resources. The Assistant Superintendent of Business Services and facilities staff have responsibility for the planning and management of the District's capital improvement program subject to review and approval by the Governing Board.

Financing Team Members

Retention of Consultants

- A. Independent Financial Advisor: The PYLUSD will retain a general financial advisory team to provide general advice on the PYLUSD's debt management program, financial condition, budget options and bond rating agency relations. Additionally, the financial advisor will structure the PYLUSD's Bond issuances and may be used on an as-needed basis to structure bond issuances that do not fall into the other categories of PYLUSD debt obligations.
- B. Bond Counsel: The PYLUSD will select a bond counsel to be used to structure bond issuances which do not fall into the other categories of PYLUSD debt obligations. Additionally, one or more of the firms will be selected to provide general legal advice on debt financing.
- C. Disclosure Counsel: The PYLUSD will retain disclosure counsel to prepare Preliminary and final Official Statements intended for use by the PYLUSD's Underwriter(s) in the offering and sale of bonds or other public debt issuances. Such disclosure counsel work includes, but is not limited to performing "due diligence," assisting with PYLUSD compliance with continuing disclosure obligations, and may include providing legal advice with respect to debt financing.

Special Situations

Changes in the capital markets, PYLUSD programs, and other unforeseen circumstances may from time to time produce situations that are not covered by the Policy. These situations may require modifications or exceptions to achieve policy goals. Management flexibility is appropriate and necessary in such situations, provided specific authorization is received from the Board.

Policy adopted: 2/10/15
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