

INYO-KERN SCHOOLS FINANCING AUTHORITY

Special Meeting of the Board of Directors

August 2, 2017

District Office

113 W. Felspar Ave.

Ridgecrest, CA 93555

A G E N D A

CALL TO ORDER AND PLEDGE TO THE FLAG

6:00 P.M.

Amy Castillo-Covert, Vice Chairman
Bill Farris
Tim Johnson, Chairman
Kurt Rockwell
Michael Scott
Donna Carson, Lone Pine Representative

Ernest M. Bell, Jr., Secretary of the Board

1. ADOPTION OF AGENDA
2. POLICY DEVELOPMENT AND REVIEW
 - 2.1 Presentation of Board Policy 3470.1, Debt Issuance and Management
3. ADJOURNMENT

2. POLICY DEVELOPMENT AND REVIEW

2.1 Presentation of Board Policy 3470.1, Debt Issuance and Management

BACKGROUND INFORMATION: Christina Giraldo, Assistant Superintendent of Business for Sierra Sands Unified School District has reviewed selected board policies and administrative regulations as a result of recommendations from the California School Boards Association (CSBA) policy service. All proposed policy and administrative regulation additions and revisions reflect recent changes in applicable state and/or federal laws and regulations.

CURRENT CONSIDERATIONS: On September 12, 2016, Governor Jerry Brown signed Senate Bill (SB) 1029, which requires all California public agencies to report annually on any debt sold on or after January 21, 2017. In addition to the annual reporting requirement, SB 1029 requires all public agencies to implement a debt policy covering certain minimum statutory requirements. Effective January 2017 a debt policy must be implemented prior to the time a local agency sells debt. A local agency must also certify that it has a debt policy in place when it reports the proposed sale to the California Debt and Investment Advisory Commission (no later than 30 days prior to proposed sale). The policy addresses the requirements of SB 1029 including (1) the purposes for which the debt proceeds may be used; (2) the types of debt that may be issued; (3) the relationship of the debt to, and integration with, the Authority’s capital improvement program or budget, if applicable; (4) policy goals related to the Authority’s planning goals and objectives; and (5) internal control procedures to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

FINANCIAL IMPLICATIONS: None.

SUPERINTENDENT’S RECOMMENDATION: This is the first reading of the Inyo-Kern Schools Financing Authority Board Policy 3470.1, Debt Issuance and Management and will be presented to the board for approval at the IKSFA board meeting on August 17, 2017.

DEBT ISSUANCE AND MANAGEMENT

The Board of Directors 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 Authority shall be consistent with law and this policy.

The Authority shall not enter into indebtedness or liability that in any year exceeds the income and revenue provided for such year except as authorized by law.

When the Board determines that it is in the best interest of the Authority, the Board may issue debt. The Secretary 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, the Secretary or designee shall administer and coordinate the Authority's debt issuance program and activities, including the timing of issuance, sizing of issuance, method of sale, structuring of the issue, and marketing strategies.

The Secretary 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 Authority'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 Authority 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 Authority shall select a legal team on an as-needed basis to assist with debt issuances or special projects.

Policy Goals

The Authority's debt issuance activities and procedures shall be aligned with the Authority's purpose as set forth in the First Amended Joint Exercise of Powers Agreement. When issuing debt, the Authority shall ensure that it:

- 1. Maintains accountability for the fiscal health of the Authority, including prudent management and transparency of the Authority's financing programs*
- 2. Attains 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*

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- 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. When determining the timing of debt issuance, considers market conditions, cash flows associated with repayment, and the Authority's ability to expend the obtained funds in a timely, efficient, and economical manner consistent with federal tax laws*
- 6. Determines the amortization (maturity) schedule which will fit best within the overall debt structure of the Authority at the time the new debt is issued*
- 7. 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*
- 8. Preserves the availability of the Authority's general fund for operating purposes and other purposes*
- 9. Meets the ongoing obligations and accountability requirements associated with the issuance and management of debt under state and federal tax and securities laws*

Authorized Purposes for the Issuance of Debt

The Authority 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 Authority facilities*
- 2. To refund existing debt*
- 3. To provide for cash flow needs*

Pursuant to Government Code 53854, general operating costs, including, but not limited to, items normally funded in the Authority's annual operating budget, shall not be financed from

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debt payable later than 15 months from the date of issuance. The Authority 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 Secretary or designee shall recommend to the Board potential financing method(s) that result in the highest benefit to the Authority, 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 Authority to meet its cash flow requirements (Government Code 53850-53858)*
- b. 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 Authority (Government Code 53859-53859.08)*

2. Long-Term Debt

- a. Special tax bonds issued pursuant to the Mello-Roos Community Facilities Act of 1982 (Government Code 53311-53368.3)*

3. Lease financing, including revenue bonds and certificates of participation (COPs)

- a. Lease financing to fund the highest priority capital expenditures when pay-as-you-go financing is not feasible (Education Code 17450-17453.1)*

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

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5. *Temporary borrowing from other sources such as the County Treasurer*

Relationship of Debt to Authority Facilities Program and Budget Decisions regarding the issuance of debt for the purpose of financing capital improvements shall be aligned with current needs for acquisition, development, and/or improvement of property and facilities of the Authority or its members as identified in a relevant capital improvement plan or 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, if appropriate, the Board and the Secretary or designee shall 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, but is not limited to, the ratio of annual debt service secured by the general fund to general fund expenditures.

The Authority 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 Authority shall consider the overall impact of the current and future debt burden of the financing when determining the duration of the debt issue.

The Authority 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 and flexibility goals.

For new money 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.

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To the extent practicable, the Authority shall also consider credit issues, market factors, and tax law when sizing the Authority'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.

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 Authority-issued debt, the Secretary 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 Authority. 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 Authority 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 Authority than either a negotiated or competitive sale*

Investment of Proceeds

The Authority 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 Authority. Where applicable, the Authority'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.

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

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Refunding/Restructuring

The Authority 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.

Internal Controls

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

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

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

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

Records/Reports

At least 30 days prior to the sale of any debt issue, the Secretary or designee 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 Authority 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 Secretary 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. (Government Code 8855)

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The Secretary 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, and shall ensure that the Authority's disclosure filings are updated as needed.

The Secretary or designee shall 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 or series of bonds issued to refund directly or indirectly all of any portion of the debt, whichever is later.

The Secretary or designee shall annually report to the Board regarding debts issued by the Authority, including information on ratings on the Authority's bonds, market update and refunding opportunities, new development for California bond financings, and the Authority's compliance with post-issuance requirements.

Legal Reference:

EDUCATION CODE

17150 Public disclosure of non-voter-approved debt

17400-17429 Leasing of Authority property

17450-17453.1 Leasing of equipment

17456 Sale or lease of Authority 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

53550-53569 Refunding bonds of local agencies

53580-53595.55 Bonds

53850-53858 Tax and revenue anticipation notes

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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

Refunding Municipal Bonds, Best Practice, January 2017

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

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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>

First Read: August 2, 2017

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Ridgecrest, California