

**CHAPTER 6: BUSINESS AND FISCAL AFFAIRS
ADMINISTRATIVE PROCEDURE NO.: 6307**

COLLEGE OF THE SISKIYOU

Procedure Manual

Title: Debt Issuance and Management

Adoption Date: October 24, 2017

Responsible Area: Administrative Services

Responsible Office: President's Office

Policy Reference: Board Policy 6307; Government Code Section 8855; SB 1029

This Debt Issuance and Management Procedure (the "Procedure") provides written guidelines for the issuance of indebtedness by the Siskiyou Joint Community College District (the "District") in satisfaction of the requirements of S.B. 1029, codified as part of Government Code Section 8855.

Purpose and Goals

This procedure provides a framework for debt management and capital planning by the District and has been developed to meet the following goals:

- I. Identify the purposes for which the debt proceeds may be used.
- II. Identify the types of debt that may be issued.
- III. Describe the relationship of the debt to, and integration with, the District's capital improvement program.
- IV. Establish policy goals related to the District's planning goals and objectives.
- V. Implement internal control procedures to ensure that the proceeds of the proposed debt issuance will be directed to the intended use upon completion of the issuance.

Article I
Purposes for Which Debt Proceeds May Be Used

Section 1.01 - Authority and Purposes of the Issuance of Debt

The laws of the State of California (the "State") authorize the District to incur debt to make lease payments, contract debt, borrow money, and issue bonds for college improvement projects. The District is authorized to contract debt to acquire, construct, reconstruct, rehabilitate, replace, improve, extend, enlarge, and equip such projects; to refund existing debt; or to provide for cash flow needs.

Section 1.02 - State Law

Section 18 of Article XVI of the State Constitution contains the "debt limitation" formula applicable to the District.

There are a number of State laws that govern the issuance of general obligation bonds ("GO Bonds") by community college districts. Sections 1(b)(2) (Proposition 46) and 1(b)(3) of Article XIII A (Proposition 39) of the State Constitution allow the District to issue GO Bonds. The statutory authority for issuing GO Bonds is contained in Education Code Section 15000 et seq. Additional provisions applicable only to Proposition 39 GO Bonds re contained in Education Code Section 15264 et seq. An alternative procedure for issuing GO Bonds is also available in Government Code Section 53506 et seq.

The statutory authority for issuing Tax and Revenue Anticipation Notes ("TRANS") is contained in Government Code Section 53850 et seq. Authority for lease financing is found in Education Code Section 17455 et seq. and additional authority is contained in Education Code Sections 17400 et seq., 17430 et seq. and 17450 et seq. The District may also issue Mello-Roos bonds pursuant to Government Code Section 53311 et seq.

Section 1.03 - Debt Issued to Finance Operating Costs

The District may deem it necessary to finance cash flow requirements under certain conditions. Such cash flow borrowing 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 are not limited to, those items normally funded in the District's annual operating budget.

The District's Superintendent/President, or the Vice President of Administrative Services ("Vice President"), will review potential financing methods to determine which method is most prudent for the District. Potential Financing sources include tax and revenue anticipation notes, temporary borrowing from Siskiyou County, and internal temporary inter-fund borrowing.

Article II
Types of Debt That May Be Issued

Section 2.01 – Types of Debt Authorized To Be Issued

- **Short-Term:** The District may issue fixed-rate and/or variable rate short-term debt, which may include TRANS, when such instruments allow the District to meet its cash flow requirements. The District may also issue bond anticipation notes (“BANs”) to provide interim financing for bond projects that will ultimately be paid from General Obligation (“GO”) Bonds.
- **Long-Term:** Debt issues may be used to finance essential capital facilities, projects and certain equipment where it is appropriate to spread the cost of the projects over more than one budget year. Long-term debt should not be used to fund District operations.

Long-term debt in the form of GO Bonds may be issued under Article XIII A of the State Constitution, either under Proposition 46, which requires approval by at least a two-thirds (66.67%) majority of voters, or Proposition 39, which requires approval by at least 55% of voters, subject to certain accountability requirements and additional restrictions.

The District may also enter into long-term leases and/or certificates of participation (COPS) for public facilities, property, and equipment.

- **Lease Financing:** Lease-purchase obligations are a routine and appropriate means of financing capital equipment and certain capital facilities. However, lease obligations may impact on budget flexibility.
- **Use of General Obligation Bonds:** A significant portion of the District’s capital projects are projected to be funded by GO Bond proceeds. Projects financed by the GO Bonds will be determined by the constraints of applicable law and the project list approved by voters.

Article III
Relationship of Debt to and Integration
With the District’s Capital Improvement Program or Budget

Section 3.01 - Impact on Operating Budget and District Debt Burden

In evaluating financing options for capital projects, both short and long-term debt amortization will be evaluated when considering a debt issuance, along with the potential impact of debt service, and additional costs associated with new projects on the operating budget of the District. The cost of debt issued for major capital repairs or replacements may be judged against the potential cost of delaying such repairs.

Article III, cont'd.

Section 3.02 - Capital Improvement Program

The Vice President and the facilities staff have responsibility for the planning and management of the District's capital improvement program subject to review and approval by the Board of Trustees. Staff will, as appropriate, supplement and revise any applicable Facilities Master Plan in keeping the District's current needs for the acquisition, development and/or improvement of District's real estate and facilities. Such plans may include a summary of the estimated cost of each project, schedules for the projects, the expected quarterly cash requirements, and annual appropriates, in order for the projects to be completed.

Section 3.03 - Refunding and Restructuring Policy

Considerations for Refunding

- **District's Best Interest:** Whenever deemed to be in the best interest of the District, the District shall consider refunding or restricting outstanding debt if it will be financially advantageous or beneficial for debt repayment and/or structuring flexibility.
- **Net Present Value Analysis:** The Vice President 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.
- **Maximize Expected Net Savings:** Another consideration in deciding which debt to refinance and the timing of the refinancing shall be to maximize the District's expected net savings over the life of the bonds.
- **Comply with existing Legal Requirements:** The refunding of any existing debt shall comply with all applicable State and Federal laws governing such issuance.

Article IV

Policy Goals Related to District's Planning Goals and Objectives

In following this Policy, the District shall pursue the following goals:

1. The District shall strive to fund capital improvements from voter-approved GO Bond issues to preserve the availability of its General Fund for District operating purposes and other purposes that cannot be funded by such bond issues.
2. The District shall endeavor to attain 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.

Article IV, cont'd.

3. The District shall take 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. The District shall, with respect to GO Bonds, remain mindful of its statutory debt limit in relation to assessed value growth within the college district and the tax burden needed to meet long-term capital requirements.
5. The District shall consider market conditions and District cash flows when timing the issuance of debt.
6. The District shall determine the amortization (maturing) schedule which will fit best within the overall debt structure of the District at the time the new debt is issued.
7. The District shall match the term of the issue to the useful lives of assets funded by that issue whenever practicable and economic while considering repair and replacement costs of those assets to be incurred in the future.
8. The District shall, when planning for the issuance of new debt, consider the impact of such new debt on overlapping debt of local, state and other governments that overlap with the District.
9. The District 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 District's General Fund.
10. The District shall, when planning for the sizing and timing of debt issuance, consider its ability to expend the funds obtained in a timely, efficient and economical manner.

Article V

Internal Control Procedures for Issuance of Debt to Ensure Intended Use of Proceeds

Section 5.01 - Structure of Debt Issues

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. Accordingly, the average life of the financing shall not exceed 120% of the average life of the assets being financed. In addition, the District shall consider the overall impact of the current and future debt burden of the financing when determining the duration of the debt issue.

Article V, cont'd.

Debt Structure:

- GO Bonds
 - 1) New Money Bond Issuances: For new money bonds issuances, the District shall size the bond issuance consistent with the “spend-down” requirements of the Internal Revenue Code and within any limitations approved by the District’s voters. To the extent possible, the District will also consider credit issues, market factors (e.g., bank qualification) and tax law when sizing the District’s bond issuance.
 - 2) Refunding Bond Issuances: The sizing of refunding bonds will be determined by the amount of money that will be required to cover the principal of, accrued interest (if any) on, and redemption premium for the bonds to be defeased on the call date and to cover appropriate financing costs.
 - 3) Maximum maturity: All bonds issued by the District shall mature within the limits set forth in applicable provisions of the Education Code or the Government Code. The final maturity of bonds will also be limited to the average useful life of the assets financed or as otherwise required by tax law.
- Lease-Purchase Obligations: The final maturity of equipment or real property lease obligations will be limited to the useful life of the assets to be financed.

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 maximize its debt capacity for future use.

Section 5.02 - Use of Proceeds

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:

- 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
- The Vice President 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:
 - 1) The amount of debt proceeds received and expended during the applicable reporting period, and;
 - 2) The status of the acquisition, construction or financing of the college facility projects, as identified in any applicable bond measure, with the proceeds of the debt.

Article V, cont'd.

- 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 debt. These requirements shall apply only until the earliest of the following:
 - 1) All the debt is redeemed or defeased, but if the debt is refunded, such provisions shall apply until all such refunding bonds are redeemed or defeased;
 - 2) All proceeds of the debt, or any investment earnings thereon, are fully expended.
- 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 college facilities, and not used for teacher or administrator salaries or other operating expenses.
- 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.

Article VI

Reporting Requirements to the California Debt and Advisory Commission

- No later than 30 days prior to the sale of any debt issue, the District shall submit a report of the proposed issuance to the California Debt and Investment Advisory Commission. The report of the proposed debt issuance shall include a certification by the District that it has adopted local debt policies concerning the use of debt and that the contemplated debt issuance is consistent with those local debt policies.
- No later than 21 days after the sale of the debt, the district shall submit a report of final sale to the California Debt and Investment Advisory Commission. A copy of the final official statement for the issue shall accompany the report of final sale. If there is no official statement, the District shall provide each of the following documents, if they exist, along with the report of final sale.
 - Other disclosure document.
 - Indenture.
 - Installment sales agreement.
 - Loan agreement.
 - Promissory note.

Article VI, cont'd.

- Bond purchase contract.
- Resolution authorizing the issue.
- Bond specimen.

The District shall submit an annual report for any issue of debt for which it has submitted a report of final sale on or after January 21, 2017. The annual report shall cover a reporting period from July 1 to June 30, inclusive, and shall be submitted no later than seven months after the end of the reporting period. The annual report shall consist of the following information:

- Debt authorized during the reporting period, which shall include the following: (1) Debt authorized at the beginning of the reporting period; (2) Debt authorized and issued during the reporting period; (3) Debt authorized but not issued at the end of the reporting period; and (4) Debt authority that has lapsed during the reporting period.
- Debt outstanding during the reporting period, which shall include the following: (1) Principal balance at the beginning of the reporting period; (2) Principal paid during the reporting period; and (3) Principal outstanding at the end of the reporting period.
- The use of proceeds of issued debt during the reporting period, which shall include the following: (1) Debt proceeds available at the beginning of the reporting period; (2) Proceeds spent during the reporting period and the purposes for which it was spent; and (3) Debt proceeds remaining at the end of the reporting period.