Coast Community College District
ADMINISTRATIVE PROCEDURE
Chapter 6
Business and Fiscal Affairs

AP 6904 DEBT ISSUANCE AND MANAGEMENT

Reference:

Board Policy 6904

The Chancellor delegates to the Vice Chancellor of Finance and Administration (Vice Chancellor) the authority to implement the intent of Board Policy 6904 including this Administrative Procedure. 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. The Vice Chancellor 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 with 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 appropriations, in order for the projects to be completed.

I. Purpose and Goals

This Administrative Procedure is informed by Board Policy 6904, and has been developed to address the following purpose and goals:

(1) Identifying the purposes for which the debt proceeds may be used.

(2) Identifying the types of debt that may be issued.

(3) Describing the relationship of the debt to, and integration with, the District's capital improvement program.

(4) Implementing 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.

II. Types of Debt that May Be Issued

A. Short Term

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. Cash flow borrowing is generally limited to annual operational purposes. General operating costs include, but are not limited to, those items normally funded in the District's annual operating budget. Potential financing sources include tax and revenue anticipation notes, temporary borrowing from the Orange County Treasurer and Tax Collector, and internal temporary inter-fund borrowing

The District may request a temporary transfer from the Orange County Educational Investment Pool pursuant to California Constitution Article XVI, Section 6 and subject to approval from the Orange County Board of Supervisors. A temporary transfer must be requested prior to the last Monday in April and shall be repaid from the first revenues accruing to the District before any other obligation of the District is met from such revenue. The aggregate amount of temporary transfers requested in a given year shall not exceed 85% of the anticipated revenues accruing to the District.

The District may issue fixed-rate and/or variable rate short-term debt, which may include tax and revenue anticipation notes ("TRANs"), when such instruments allow the District to meet its cash flow requirements. However, the District's general objective is to manage its cash position in a manner so that internally generated cash flow is sufficient to meet expenditures.

B. Long Term

Long-term debt may be issued to finance the acquisition and/or construction of long-lived capital improvements. Long-term debt financing shall not be used to fund operating costs or operating deficits. The principal types of debt instruments to finance long-term capital projects are general obligation (GO) bonds, lease revenue bonds, certificates of participation (COPs), and capital leases. Such instruments may be refunded by the issuance of refunding obligations for economic savings.

1. General Obligation (GO) Bonds

General obligation bonds will be used to finance the acquisition, improvement, and/or construction of real property. 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.

Debt Structure must consider the following:

- New Money Bond Issuances: For new money bond issuances, the District shall size the bond issuance consistent with the "spend-down" requirements of the Internal Revenue Code and within any limits 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.
- 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.

2. Lease Revenue Bonds

Lease revenue bonds will be used to finance the acquisition, improvement, and/or construction of real property; acquisition of capital equipment; and other capital projects. The final maturity of equipment or real property lease obligations will be limited to the useful life of the assets to be financed.

3. Certificates of Participation (COPs)

COPs will be used for acquisition or improvement of existing facilities and/or construction of new facilities that result in immediate or future savings in payments currently made or to be made by the District's General Fund. For example, COPs may be used to provide funds to execute a lease purchase option for a facility whereby future savings accrue to the General Fund during the period for which the COPs and the lease would be outstanding. COPs also are appropriate for projects which will be matched with grant and other additional moneys in order to reduce operating costs to the District, address critical and urgent seismic and other public safety hazards for which no other sources are practically available, or provide for the delivery of services mandated by law.

4. Capital Leases

Capital equipment and personal property may be eligible for capital lease financing.

5. Refunding Obligations

Refunding Bonds will be issued typically to achieve debt service savings, although other non-economic factors may support the issuance of such obligations. Considerations for Refunding Bonds may include the following:

- District's Best Interest. Whenever deemed to be in the best interest of the District, the District shall consider refunding or restructuring outstanding debt if it will be financially advantageous or beneficial for debt repayment and/or structuring flexibility.
- Net Present Value Analysis. The Vice Chancellor 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.
- Maximization of Expected Net Savings. Another consideration in deciding which debt to refinance and the timing of the refinancing shall be maximization of 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.

Absent any significant non-economic factors, a refunding should produce minimum net debt service savings (net of reserve fund earnings and other offsets) of at least 3% of the par value of the refunded bonds on a net present value basis, using the refunding issue's True Interest Cost ("TIC") as the discount rate. The TIC is the annual discount rate (yield) which, when used to discount all debt service payments to the date of issuance, results in the aggregate present value of such debt service payments being equal to the original purchase price of the issue.

III. Debt Limits

The District considers its debt portfolio holistically, that is, it optimizes the portfolio of debt for the entire local educational agency rather than on a project-by-project basis. Therefore, management makes decisions regarding project prioritization, debt portfolio optimization, and financing structures within the context of the overall needs and circumstances of the District.

A. State Constitution

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

Sections 1(b)(2) and 1(b)(3) of Article XIII A of the State Constitution allow the District to issue traditional general obligation bonds and Proposition 39 bonds, respectively. The statutory authority for issuing general obligation bonds is contained in Section 15000 et seq. of the Education Code. Additional provisions applicable only to Proposition 39 general obligation bonds are contained in Section 15264 et seq. of the Education Code. An alternative procedure for issuing general obligation bonds is also available in Section 53506 et seq. of the Government Code. Government Code section 8855 requires local government agencies to adopt local debt policies.

B. State Laws

The statutory authority for issuing TRANs is contained in Section 53850 et seq. of the Government Code. Authority for lease financings is found in Section 17455 et seq. of the Education Code and additional authority is contained in Sections 17400 et seq., 17430 et seq. and 17450 et seq. of the Education Code. The District may also issue Mello-Roos bonds pursuant to Section 53311 et seq. of the Government Code.

Education Code section 15106 limits the District’s total outstanding bonded debt to not exceed 2.5 percent of the taxable property of the District as shown by the last equalized assessment by the County of Orange. Additionally, under Education Code section 15270, the levied bond tax rate for the District may not exceed $25 per year per $100,000 of assessed valuation.

IV. Structural Features

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 length of maturity of any debt instrument shall be equal to or less than the useful life of the asset(s) 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.

1. General Obligation Bonds
    a. The final maturity of General Obligation Bonds will be limited to the

shorter of the average useful life of the asset financed or 25 years pursuant to Education Code section 15144.

   b. The final maturity of General Obligation Bonds issued under the Government Code will be limited to the shorter of the average useful life of the asset financed or 40 years. Per Section 53508.6 of the Government Code, the maturity of the bonds may not exceed 30 years unless there is no compounding of interest.

2. Lease-Purchase Options: The final maturity of equipment or real property lease obligations will be limited to the useful life of the assets to be financed. The final maturity of real property obligations will also consider the size of the financing.

3. Mello-Roos Obligations and Revenue Bonds: These obligations, although repaid through additional taxes levied on a discrete group of taxpayers or from pledged developer fees, constitute overlapping indebtedness of the District and have an impact on the overall level of debt affordability. The District will develop separate guidelines for the issuance of such obligations as the need arises.

B. 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. Annual debt service payments will generally be structured on a level basis per component financed; however, principal amortization may occur more quickly or slowly where permissible, to meet debt repayment, tax rate, and flexibility goals.

C. Capitalized Interest

Unless required for structuring purposes (e.g. first interest payment due before levy dollars are received), the District will avoid the use of capitalized interest in order to avoid unnecessarily increasing the bond size and interest expense.

D. Targets and Ceilings for Debt Affordability

One of the factors contributing to the District's high credit ratings is its moderate General Fund-supported debt level relative to other issuers and as compared to the resources available to repay the debt. The issuance of debt to be repaid from the General Fund and other internal District resources (typically, the District's certificates of participation) must be carefully monitored to maintain a balance between debt and these resources.

E. 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:

1. As required by Government Code Section 53410, the District shall use GO Bond proceeds only for the purposes approved by the District's voters; and

2. The Vice Chancellor shall have the responsibility, no less often than annually, to provide to the Board of Trustees a written report which shall contain at least the following information:
    a. The amount of the debt proceeds received and expended during the applicable reporting period; and
    b. 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 debt.
3. 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: (i) 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, or (ii) all proceeds of the debt, or any investment earnings thereon, are fully expended.
4. The District shall post on the District website the Annual Report of the District's Citizens' 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.
5. The District shall retain 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.

V. Related Issues

A. Financial Disclosure

The District shall prepare or cause to be prepared appropriate disclosures as required by Securities and Exchange Commission, 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.

B. Review of Financing Proposals

All capital financing proposals involving a pledge of the District's credit through the sale of securities, execution of loans or lease agreements, or otherwise directly or indirectly lending or pledging of the District's credit initially shall be referred to the Vice Chancellor who shall determine the financial feasibility of such proposal and make recommendations accordingly to the Board.

C. Establishing Financing Priorities

The Vice Chancellor shall administer and coordinate this Policy and Administrative Procedure and the District's debt issuance program and activities, including timing of issuance, method of sale, structuring the issue, and marketing strategies. The Vice Chancellor shall, as appropriate, report to the Chancellor and the Board regarding the status of the current and future year programs and make specific recommendations.

D. Rating Agency and Credit Enhancer Relations

The District shall endeavor to maintain effective relations with the rating agencies and credit enhancers. The Vice Chancellor along with the District's debt financing team shall meet with, make presentations to, or otherwise communicate with the rating agencies on a consistent and as appropriate basis in order to keep the agencies informed about the District's capital plans, debt issuance program, and other appropriate financial information. The Vice Chancellor with the District's debt financing team shall communicate with credit enhancers as appropriate to determine if a cost effective product for the District is commercially available with reasonable terms and conditions.

E. Sale of Securities

There are three methods of sale: competitive, negotiated, and private placement. The preferred method of sale shall be the competitive method as it is likely to result in the lowest interest cost to the District.

1. The District will generally conduct bond sales on a competitive basis in which the District and its financial advisors will set the terms of the sale to encourage as many bidders as possible.
2. A negotiated financing may be used where market volatility, refunding sensitivity, or the use of an unusual or complex financing or security structure causes a concern with regard to marketability. Any award through negotiation shall be subject to approval by the Board of Trustees.
3. 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 or where the terms of the private placement are more beneficial to the District than either a negotiated or competitive sale. Any award shall be subject to approval by the Board of Trustees.

F. Refunding and Restructuring Policy

Whenever deemed to be in the best interest of the District, the District shall consider refunding or restructuring outstanding debt when financially advantageous or beneficial for debt repayment and structuring flexibility. Any savings from such restructuring shall be applied in accordance with legal and tax considerations and legal analysis at the time such savings are available.

G. Variable Rate Debt

To maintain a predictable debt service burden, the District shall give preference to debt that carries a fixed interest rate. The District, however, may consider variable rate debt to diversify its debt portfolio, reduce interest costs, increase repayment flexibility, and match the durations of assets and liabilities. Prior to issuing variable rate instruments, District staff and the financial advisor will analyze the savings available in comparison to fixed rate instruments and evaluate and quantify the risks associated with the variable rate debt. The most recent ten-year average of the BMA Index may be used as a benchmark for determining the variable rate debt cost. Ancillary costs for remarketing, liquidity, and broker-deal and tender agent fees should also be reflected in the analysis.

1. As long as variable rate debt is outstanding, the District will actively monitor and evaluate market conditions and will determine if it is appropriate and cost efficient to convert the variable rate debt to fixed interest rates.
2. Consistent with rating agency guidelines, the percentage of unhedged variable rate debt outstanding at the time of any debt issuance shall not exceed the upper limit for such debt specified by the rating agencies. Unhedged variable rate debt representing 15 percent of District's total outstanding debt is an acceptable upper limit.
3. For purposes of this limitation, variable rate debt is considered hedged if it is subject to an interest cap, has been synthetically converted to a fixed rate, or if short-term investments offset variable rate debt exposure. Short-term District investments for purposes of this limitation shall include monies invested and maintained for working capital and liquidity purposes.

H. Transaction Records

The Vice Chancellor, or designee, shall maintain complete records of decisions made in connection with each financing, including the selection of the financing team members, the structuring of the financing, and selection of investment products. The Vice Chancellor shall timely provide a summary of each financing to the Board.

I. Financing Team

1. Members

The District may use the services of professional service providers, such as bond counsel, general counsel, independent financial advisors, bond rating analysts, or other debt management advisors in order to assist the District with the effective management of its debt.

2. Disclosure

All financing team members will be required to provide full and complete disclosure, under penalty of perjury, relative to all agreements with other financing team members and outside parties. The extent of the disclosure may vary depending on the nature of the transaction. However, in general terms, no agreements will be permitted which would compromise the ability of an individual or entity to provide independent advice which is solely in the best interests of the District, or which could reasonably be perceived as a conflict of interest.

VI. Report After Sale of Debt Issue

Within twenty days after the sale of debt, the District shall submit a report of final sale to the California Debt and Investment Advisory Commission (CDIAC). A copy of the final official statement for the issuance shall accompany the report of final sale. If there is no official statement, the issuer shall provide each of the following documents, along with the report of final sale: [1]

1. Other disclosure document;
2. Indenture;
3. Installment sales agreement;
4. Loan Agreement;
5. Promissory note;
6. Bond purchase contract;
7. Resolution authorizing the issue; and,
8. Bond specimen.

VII. Annual Report of Debt Issue

The District shall submit an annual report to the CDIAC 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 by any method approved by CDIAC. Before approving any annual method of reporting, CDIAC shall consult with appropriate state and local debt issuers and organizations representing debt issuers for purposes that shall include, but not be limited to, making a proposed reporting method more efficient unless burdensome for issuers. The annual report shall consist of the following information:

1. Debt authorized during the reporting period, which shall include the debt authorized at the beginning of the reporting period, the debt authorized and issued during the reporting period, debt authorized but not issued at the end of the reporting period, and debt authority that has lapsed during the reporting period.
2. Debt outstanding during the reporting report shall include principal balance at the beginning of the reporting period, principal paid during the reporting period, and principal outstanding at the end of the reporting period.
3. The use of proceeds of issued debt during the reporting period, which shall include the debt proceeds available at the beginning of the reporting period, proceeds spent during the reporting period and the purposes for which it was spent, and debt proceeds remaining at the end of the reporting period.

[1] Government Code section 8855(j).

Ratified February 1, 2017