

CITRUS COMMUNITY COLLEGE DISTRICT
STANDARD OPERATING PROCEDURES FOR
DEBT MANAGEMENT

Adopting sound, transparent and comprehensive debt issuance procedures at the Citrus Community College District is vital in order to pursue the District's strategic plan, priorities and objectives. The Department of Finance and Administrative Services promulgates the within procedures to guide decisions and actions related to issuing and managing debt as a tool for ensuring that the District maintains ready access to capital and serve as internal control procedures to ensure that the proceeds of any debt issuance will be directed to the intended use.

I. Authorization

A. Purposes for Which Debt Proceeds May Be Used

The laws of the State of California authorize the issuance of debt by 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 issue 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.

B. Goals and Objectives

1. 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.
2. 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.
3. The District shall remain mindful of its statutory debt limit in relation to assessed value growth within the school district and the tax burden needed to meet long-term capital requirements.
4. The District shall consider market conditions and District cash flows when timing the issuance of debt.
5. The District shall consider its facilities and capital planning needs, as well as the impact on its budget and liquidity in its General Fund, in connection with each debt issue.
6. The projects financed with debt obligations shall further the District's educational mission and be consistent with the District's policy goals and objectives.

II. Types of Debt that May Be Issued

A. Short Term

The District may request a temporary transfer from the Los Angeles County Pooled Surplus Investments pursuant to California Constitution Article XVI, Section 6 and subject to approval from the Los Angeles 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 fiscal year shall not exceed 85% of the anticipated revenues accruing to the District during the same fiscal year.

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-life 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 bonds (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 and/or other considerations as described herein.

1. General Obligation Bonds (GO Bonds)

General obligation bonds will be used to finance projects included on the project list approved by the voters at the election when such GO Bonds were authorized, and which comply with State law and applicable provisions of the Internal Revenue Code, if appropriate.

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 projects which comply with State law and applicable provisions of the Internal Revenue Code, if appropriate.

3. Certificates of Participation (COPs)

COPs will be used for acquisition or improvement of existing facilities, construction of new facilities, and/or other projects which comply with State law and applicable provisions of the Internal Revenue Code, and which 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 may also be used for projects which will be matched with grant and other additional moneys, 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. Lastly, COPs may be executed and delivered in anticipation of a future issue of General Obligation Bonds, which tax levy constraints have temporarily precluded.

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.

Absent any significant non-economic factors, 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. The District 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. The District shall time the refinancing of debt to maximize the District's expected net savings over the life of the debt. The refunding of any existing debt shall comply with all applicable State and Federal laws governing such issuance.

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 Prop 46 General Obligation Bonds and Proposition 39 General Obligation 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

GO 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, one of which this Standard Operating Procedure is intended to be.

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 15102 limits a community college district's total outstanding bonded debt (*i.e.*, the principal portion only) to not exceed 1.25 percent of the taxable property of the community district, as shown by the last equalized assessment of the county in which the district is located. Additionally, Education Code Section 15268 states that the levied bond tax rate for community college districts 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 average useful life of the asset(s) being financed.

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 lease obligations will also consider the impact of the final payment on the general fund of the District.
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.*, the first interest payment being 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 said resources.

V. Related Issues

A. Financial Disclosure

The District shall prepare or cause to be prepared appropriate disclosures as required by Securities and Exchange Commission Rule 15c2-12 (see Attachment A for more information), other applicable Federal or State laws and regulations, or its agreements to provide ongoing disclosure, and, upon the advice of counsel, the District may prepare or cause to be prepared disclosures when otherwise requested by the federal government, the State of California, rating agencies, bond insurers, underwriters, bond counsel, investors, taxpayers, and other persons or entities.

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 President of Finance and Administrative Services (CBO) who shall determine the financial feasibility of such proposal and make recommendations accordingly to the Superintendent/President and Board.

C. Establishing Financing Priorities

The CBO shall administer and coordinate the Policy and the District's debt issuance program and activities, including timing of issuance, method of sale, structuring the issue, and marketing strategies. The CBO shall, as appropriate, report to the Superintendent/President 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 CBO, along with the District's general municipal advisor, 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 CBO, along with the District's municipal advisor, 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; however, the District has the option to select whichever method best suits the District's financing needs at or prior to the time of sale. The District may consult with any parties necessary to make this decision.

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 gives 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 municipal 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, or 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-effective 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 the 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 CBO or their 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 CBO 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, Legal Counsel, Independent Municipal Advisors, Bond Rating Analysts, Underwriters, or other debt management advisors and consultants 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 any and all agreements with other financing team members and outside parties, subject that, in the case of the District's oral, written, electronic or any other communications with its legal counsel, this provision shall not be viewed as a waiver of any attorney-client privilege, confidence, or otherwise related to the attorney-client relationship. The extent of the disclosure may vary depending on the nature of the transaction. However, in general term, no agreements will be permitted which would compromise a firm's ability to provide independent advice which is solely in the best interest of the District, or which could reasonably be perceived as a conflict of interest.

VI. Report After Sale of Debt Issue

Within twenty (20) days after the sale of debt, the District shall submit a report of final sale to the California Debt and Investment Advisory Commission (Commission). 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. 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.¹

VII. Annual Report of Debt Issue

The District shall submit an annual report to the California Debt and Investment Advisory Commission (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 (7) months after the end of the reporting period by any method approved by the Commission. Before approving any annual method of reporting, the Commission 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.

Legal References:

EDUCATION CODE

5300-5441 Conduct of elections

15100-15262 Bonds for school districts and community college districts

15264-15276 Strict accountability in local school construction bonds

15278-15288 Citizen's oversight committees

15300-15425 School Facilities Improvement Districts

17150 Public disclosure of non-voter-approved debt

17400-17429 Leasing of district property

17450-17453.1 Leasing of equipment

17456 Sale or lease of district property

17596 Duration of contracts

42130-42134 Financial reports and certifications

ELECTIONS CODE

1000 Established election dates

¹ Cal. Government Code section 8855(j).

GOVERNMENT CODE

8855 California Debt and Investment Advisory Commission

53311-53368.3 Mello-Roos Community Facilities Act

53410-53411 Bond reporting

53506-53509.5 General obligation bonds

53550-53569 Refunding bonds of local agencies

53580-53595.55 Bonds

53850-53858 Tax and revenue anticipation notes

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

Analyzing and Issuing Refunding Bonds, Best Practice, February 2011

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

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: <http://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: <http://www.sec.gov>

Implemented by the Vice President, Finance and Administrative Services, as of this 22nd day of June, 2020.