Santa Barbara Unified School District
Administrative Regulation

Business and Non-Instructional Operations **AR 3420**

DEBT MANAGEMENT

The district recognizes that the foundation of a well-managed debt program is a comprehensive debt policy.

This debt policy sets forth a set of comprehensive guidelines for the financing of capital expenditures, as well as addressing short term cash flow needs. It is the objective of this policy that:

1. The district obtain financing only when necessary
2. The district will use a process for identifying the timing and amount of debt or other financing that is efficient
3. The district will obtain the most favorable interest and other costs in issuing the debt.

This regulation will be reviewed by the Governing Board at least annually and updated as necessary.

Responsibilities

1. Assistant Superintendent of Business Services

   The Assistant Superintendent of Business Services will have the primary responsibility for developing financing recommendations and ensuring the implementation of the debt policy. In developing the recommendations, the Assistant Superintendent will be assisted by the Director of Fiscal Services and the Director of Facilities and Operations. These individuals will comprise the Debt Management Committee. The responsibilities of the committee will be to:

   a. Meet at least annually to review the district's capital improvement program and consider the need for financing to maintain the progress on the capital improvement program.
   b. Recommend the financing participants for each debt issue, ensure the debt issue is integrated with the district's overall financing program, approve the structure of each debt issue, and review and approve all documentation for each issue.
   c. Assist in the preparation of the information for the official statement for debt issues.
   d. Meet as necessary in preparation for a financing or to review changes in state or federal laws or regulations.
   e. Disclose all information for the bond rating agencies and make presentations as necessary.
   f. Meet annually to review the district's compliance with the existing debt agreements.
   g. Provide annual statements to the Governing Board following meetings of the Debt Management Committee.
   h. Meet annually to review the services provided by the financial advisor, bond counsel, underwriter and other service providers to evaluate the extent and the effectiveness of the services provided. If the committee determines replacement services are needed, develop a Request for Proposal (RFP) to be used in the selection of new bond counsel, financial advisor and /or underwriter.
   i. Administer the investment and expenditure of the debt proceeds and ensure that the debt payments are made on time.
   j. Ensure that the arbitrage requirements are monitored and that the appropriate reports are

filed with the federal government.

2. Bond Counsel

The bond counsel will issue an opinion as to the legality and tax exempt status of any obligations. The district will also seek the advice of the bond counsel on questions involving the state or federal law or arbitrage. The bond counsel is also responsible for the preparation of the bond documents (including the authorizing resolutions that the Governing Board will adopt and official statement) and most of the closing documents. The bond counsel will ensure that all legal requirements for the debt issue are met. The bond counsel will perform other services as defined by the contract approved by the district.

3. Financial Advisor/Underwriter

The district staff will seek the advice of the financial advisor and/or underwriter. The financial advisor will advise on the structuring of the debt obligations that will be issued, inform the district of the options available for each issue, advise the district as to how choices will impact the marketability of the district’s obligations, and will provide other services as defined by the contract approved by the district. In the event the district considers refunding a prior year debt the underwriter or financial advisor will prepare a computation of the economic gain or loss on the issue.

4. District Auditors

The district will include a review of any official statements issued in connection with a debt issue in its contract for services with the district's auditors. In the event the district has refunded a prior debt issuance the auditor will include the amount of the economic gain or loss in the footnote on the new debt in the audit report.

Short-Term Operating Debt Policy

The expenditures associated with the day-to-day operations of the district will be covered by current revenues. However, because the district does not receive its revenues in equal installments each month and the largest expenditures occur in equal amounts, the district may experience temporary cash shortfalls. To finance these temporary cash shortfalls, the district may incur short-term operating debt, typically, tax and revenue anticipation notes (TRANS). The district will base the amount of the short-term operating debt on cash flow projections for the fiscal year and will comply with applicable federal and state regulations. The district will pledge operating revenues to repay the debt, which will be repaid in one year or less. The district will minimize the cost of the short-term borrowings to the greatest extent possible.

Long-Term Capital Debt Policy

The following will apply to the issuance of long-term debt:

1. The district will not use long-term obligations for operating purposes.
2. The life of the long-term obligations will not exceed the useful life of the projects financed.
3. The district will strive to maintain level debt service payments.
4. The district will not issue unfunded long-term debt in any fiscal year in excess of 3% of annual general fund revenues and in any subsequent fiscal year the long term debt shall not cumulatively be in excess of 3% of annual general fund revenues, unless there is a authorized tax levy or redevelopment revenue stream committed to service debt.

Bonds

1. The district may issue general obligation bonds to finance significant capital improvements for the purposes set forth by the voters in the bond election. The district may also issue revenue bonds to finance significant capital improvements without voter authorization, through Certificates of Participation (COP's) or through Qualified Zone Academy Bonds (QZAB's).

2. The district staff will prepare a resolution authorizing the issuance of Certificates Participation or Qualified Zone Academy Bonds for presentation to the Governing Board at least 30 days prior to the issuance.

Negotiated Versus Competitive Sale Versus Private Placement

When feasible and economical, the district may issue bonds either by competitive or negotiated sale. The district will issue by negotiated sale when the issue is predominantly a refunding issue or in situations that require more flexibility than a competitive sale allows. Whenever the option exists to offer an issue either for competition or negotiation, the Debt Management Committee will prepare an analysis of the options to aid in the decision making process.

Refunding

The district will consider refunding debt whenever an analysis indicates the potential for present value savings of approximately 5% of the principal being refunded or at least $200,000. The financial advisor will compute the economic gain or loss on the refunding and the members of the Debt Management Committee will verify the computation. The district will not refund less than 5% of its outstanding debt at one time except in unusual circumstances such as when it intends to change bond covenants.

Capital Leases

Capital leasing is an option for the acquisition of equipment or other assets with a cost of less than $500,000. The district will not consider leasing when there are available funds on hand for the acquisition unless the interest expense associated with the lease is less than the interest that can be earned by investing the funds on hand or when other factors such as budget constraints override the economic consideration.

When a lease is arranged with a private sector entity, the district will seek a tax-exempt rate. When a lease is arranged with a government or other tax-exempt entity, the district will try to obtain an explicitly defined taxable rate so that the lease will not be counted in the district's total annual borrowings subject to arbitrage rebate.

The lease agreement will permit the district to refinance the lease at no more than reasonable cost. A lease that can be called at will is preferable to one that can merely be accelerated.

The district staff will obtain at least three competitive proposals for any major lease financing. In evaluating the proposals, the net present value of the competitive bids will be compared, taking into account how and when the payments are made. If required by statute, the purchase price of equipment will be competitively bid.

Bond Rating

The district's goal is to maintain or improve its bond ratings. The district staff will make a full disclosure to the bond rating agencies when necessary.

Arbitrage Liability Management

The district will make every effort to minimize the cost of the arbitrage rebate and yield restriction while strictly complying with the law. The federal arbitrage law is intended to discourage entities from issuing tax exempt obligations unnecessarily. In the complying with the spirit of the law, the district will not issue obligations except for identifiable projects with very good prospects of timely initiation. Obligations will be issued as closely in time as feasible to the time contracts are awarded so as to minimize the time the debt proceeds are unspent.

The district's bond counsel and financial advisor will review, in advance, all arbitrage rebate payments and forms sent to the IRS.

Internal Interim Financing
In order to defer the issuance of debt obligations, when sufficient non-restricted funds are on hand, consideration will be given to appropriating them to provide interim financing for large construction projects. When the debt obligation is subsequently issued, the non-restricted funds will be repaid.

SANTA BARBARA UNIFIED SCHOOL DISTRICT
Santa Barbara, California August 10, 2010; June 11, 2013