PALO VERDE COMMUNITY COLLEGE DISTRICT
ADMINISTRATIVE PROCEDURE AP _____

References and Citations: GFOA Best Practice, Investment of Bond Proceeds, 2007; GFOA Best Practice, Debt Management Policy, 2003; Debt Issuance and Management: A Guide for Smaller Governments, James C. Joseph, GFOA, 1994; "*Understanding Current and Advance Refundings*," Government Finance Review, April 1992; Approved by the GFOA's Executive Board, February, 201; *Disclosure Handbook for Municipal Securitie*s, National Federation of Municipal Analysts, 1992; "Securities and Exchange Commission Enforcement Actions in the Municipal Securities Markets," *Government Finance Review*, August 1996; *Making Good Disclosure*, Robert Dean Pope, GFOA, 2001; GFOA Best Practice, "Using a Web Site for Disclosure," GFOA, 2002; GFOA Best Practice, Web Site Presentation of Official Financial Documents, 2009; GFOA Best Practice, "Understanding Your Continuing Disclosure Responsibilities, 2010; *Disclosure Roles of Counsel*, John McNally, Project Coordinator, ABA/National Association of Bond Lawyers, 2009; EMMA - http://emma.msrb.org/

Debt Management

In accordance with Policy _____, Debt Acquisition and Management, should the District approve and authorize new debt obligations (beyond that which is incurred in the standard scope of business operations), due diligence will be demonstrated to manage the debt as recommended by the Government Finance Officers Association (GFOA). The College has developed formal guidelines to provide a financial framework for decision-making regarding for debt management.

1. The Chief Business Officer, in consultation with an external financial expert and the District's Auditor, shall design and implement a conscientious debt management plan as approved by the Board of Trustees at the time the debt is acquired.

2. The debt management plan includes, but is not limited to:
    a. A projection of how the debt will be paid over the life of the commitment and the impact on the District's budget
    b. While maintaining instructional, student services, and operational integrity, every effort will be made to pay the debt as soon as possible.

3. The debt management plan may be modified or adjusted over the life of the debt as deemed necessary to benefit the institution or the retirement of the debt.

4. The debt management plan will be reviewed annually by the external financial expert and the District's Auditor for review, compliance, and recommendations applicable to the consideration of improved financial repayment options.
    a. The external financial expert's and the District's Auditor's report will be presented to the Budget Committee, College Council, the college community, the Board's Finance & Audit Committee, and to the Board of Trustees.

5. The Chief Business Officer will monitor the progress in meeting debt obligations and report to the Budget Committee, College Council, the college community, the Board's Finance & Audit Committee, and to the Board of Trustees the status of the debt repayment progress no less than semi-annually.

Bond / COP Debt Management

1. The College understands that investors are a primary source of capital for state and local governments. When a governmental entity sells debt, it enters into a long-term contract to make timely debt service payments to investors. Other stakeholders, such as bond/COP insurers, liquidity providers, rating analysts, trustees, credit enhancers,

counterparties, and constituents are interested in obtaining financial and operation information on issuers. An effective investor relations program that responds to the informational needs of these diverse groups **may** lower borrowing costs for issuers.

2. The College, through its dissemination agent [Deutsch Bank through the Electronic Municipal Market Access system (EMMA)], identifies and provides for publication, annual information, both positive and negative, to be made available to investors, including material events, changes in financial or operating position, and changes in policies. Documents that may be a source of such information include:
   - Annual budgets, financial plans or comprehensive annual financial reports
   - Interim financial information that is sent to governing bodies for council or board meetings
   - Annual Audits
   - Accreditation Reports and Change in Status
   - S&P standing and credit rating
   - Organizational changes
   - Ordinances or resolutions adopted by a governing body
   - Other information impacting the financial stability of the institution

3. The College shall provide the timely release of information with any sale of debt instruments, if applicable. The College shall also respond to investor questions, ensuring that all investors receive the same communication. Through EMMA, the College ensures that the majority of investors have access to all college information impacting its financial stability. If a bond/COP sale or repurchase occurs, the College ensures that preliminary official statements are received one week in advance of a bond sale. Marketing efforts that relate to the sale of bonds/ COPs may include preparation of special reports for investors, the scheduling of investor meetings, conference calls, and webcasting of college conference calls and on-site visits.

4. The College shall maintain a positive relationship with the rating agencies and fund analysts including distribution of disclosure information by keeping them informed of any changes that could affect credit quality and actions to address financial problems.

5. The College ensures that financial statements or other information needed for disclosure purposes are completed on a consistent schedule from year-to-year and prior to the date established in any contractual commitments.

6. Formal policy guidelines for Bond or COP debt management include but are not limited to:

   - a systematic approach for determining if a refunding is cost-effective
   - consistency with other institutional financial goals and objectives
   - provide the justification for decisions on when to undertake a refunding
   - ensure that staff time is not consumed unnecessarily in evaluating refunding proposals
   - ensure that some minimum level of cost savings is achieved
   - reduce the possibility that further savings could have been achieved by deferring the sale of refunding bonds/COPs to a later date.

7. If a refunding is undertaken to achieve cost savings, the College shall evaluate:

   - the issuance costs that will be incurred and the interest rate at which the refunding bonds/COPs can be issued

- the maturity date of the refunded bonds/COPs
- call date of the refunded bonds/COPs
- call premium on the refunded bonds/COPs
- structure and yield of the refunding escrow
- any transferred proceeds penalty.

8. Regarding refunding/refinancing/restructuring, the College shall determine whether or not there will be the achievement of a minimum net present value (NPV) savings as a test to determine viability. A standard threshold is that the savings (net of all issuance costs and any cash contribution to the refunding), as a percentage of the refunding bonds, should be at least 3%-5%. This test may be applied to the entire issue or on a maturity-by-maturity basis.

9. The College may establish a minimum dollar threshold (e.g. $100,000 or $1 million NPV savings). Note: Federal tax law typically permits an issuer to conduct one advance refunding over the life of a bond issue. As such, an issuer must take greater care (i.e., require a higher savings threshold) when evaluating an advance refunding candidate.

10. In certain circumstances, lower savings thresholds may be justified. For example, when an advance refunding is being conducted primarily for policy reasons (other than economic savings), interest rates are at historically low levels or the time remaining to maturity is limited, and as such, future opportunities to achieve greater savings are not likely to occur.

11. Savings also can be evaluated by additional metrics, such as compared to the optional call value and to historical interest rate trends. Financial analysis of refunding candidates must take into account a number of financial variables. As recommended by the GFOA, the College shall utilize an independent financial advisor to assist in performing such analyses.

Bond/COP Structure and Escrow Efficiency

Debt management practices are in place to anticipate the potential for refundings in the future as noted in the Debt Management Procedures. When bonds/COPs are issued, careful attention shall be paid to the bond structure to address features that may affect flexibility in the future.

1. If determined advisable by the external financial bond/COP consultant, the College shall create a refunding escrow that is efficient and will optimize savings.

2. Among the issues that should be considered with regard to each type of refinancing/restructuring instrument are the following:
   - State and Local Government Securities (SLGS) can be structured to comply with the federal tax law limits on investment return on escrow securities and eliminate any inefficiency in the escrow.
   - Open market securities may have a higher return but may not mature or pay interest on the date when debt payments are due.
   - Other permitted investments may provide even higher yields, resulting in greater savings, but often do not allow issuers to meet the requirements for a legal defeasance.

3. The College may be required to increase the issue size or blend higher- and lower-yielding securities to comply with yield-restriction requirements and generate sufficient

revenues. Such inefficiency may be eliminated by future escrow substitutions. Additionally, forward supply agreements, guaranteed investment contracts, or float contracts also may be considered to minimize escrow inefficiencies. However, the College may need to be concerned with potential counterparty risk, with these investment instruments.