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, 2011

Debt Acquisition

In accordance with Policy _____, Debt Acquisition and Management, should the District identify needs to warrant new debt obligations (beyond that which is incurred in the standard scope of business operations), due diligence will be demonstrated prior to final approval as follows:

1. If a need arises that requires the acquisition of new short or long-term debt, the Superintendent/President, shall report to the Board of Trustees regarding the need and request authorization to obtain external expertise regarding the impact of the potential debt on the institutional budget.

2. Short or long-term debt may include, but is not limited to: COP refinancing or restructuring, auto financing, new facility mortgages and refinancing, solar acquisition and construction financing and refinancing, major construction or renovation financing or refinancing, etc.

Bonds:

Analyzing and Issuing Refunding Bonds (1995 and 2010) (DEBT)
Background. Bond refinancing ("refunding") is an important debt management tool for state and local government issuers. Refundings are commonly executed to achieve interest cost savings, remove or change burdensome bond covenants, or restructure the stream of debt service payments to avoid a default, or in extreme circumstances, an unacceptable tax or rate increase.

Definitions:

• Optional Call Provision / Optional Call Date: Most municipal bond issues are structured with an Optional Call Provision which allows the issuer to refund/refinance the existing bonds by purchasing the outstanding bonds at a pre-determined price (e.g.101%), and replacing them with new refunding bonds. The Optional Call Date is typically 10 years from the date of issuance of the bonds.

• Current vs. Advance Refunding: Current vs. Advance Refunding - There are two types of refundings, as defined by Federal Tax laws; a current refunding in which a refunding takes place (i.e., refunding bonds are sold) within 90 days of the optional call date, and an advance refunding in which refunding bonds are sold more than 90 days prior to the first call date.

• Escrow Defeasance Portfolio: This is a combination of cash and securities that are sufficient to pay the escrow requirement: the debt service, call premium, and outstanding principal of refunded bonds due on the optional call date.

• Legal vs. Economic Defeasance: Legal vs. Economic Defeasance - A legal defeasance typically occurs when an Escrow Defeasance Portfolio is funded with either State and Local Government Series securities ("SLGS") or securities that are direct obligations of the U.S. Government. An economic defeasance occurs when the refunding escrow is funded with permitted investments that do not meet the defined criteria of a legal defeasance, such as Federal Agency securities ("Agencies") or other typically higher-yielding securities. In a legal defeasance, the refunded bonds are legally removed from the issuer's balance sheet, while under an economic defeasance the refunding bonds may remain on the balance sheet.

As recommended/encouraged by the Government Finance Officers Association (GFOA), at the outset of evaluating each refunding, the Chief Business Officer shall solicit the advice of their bond counsel and financial advisor/s to outline three key legal and financial issues when evaluating a refunding candidate:

1) Financial and Policy Objectives: Refundings may be undertaken for a number of financial and policy objectives, including to achieve debt service savings, eliminate restrictive bond/legal covenants, restructure the stream of debt service payments, or achieve other policy objectives. (Although in most circumstances the College may undertake a refunding to obtain economic savings, the College may refund an issue to restructure their debt portfolio to obtain budgetary/cash flow relief or to address exposure to other Government Finance costs/liabilities).

2) Financial Savings / Results: As recommended by the GFOA, the College has developed formal guidelines for debt management to provide a financial framework for decision-making regarding the evaluation of refunding candidates

3) Bond Structure and Escrow Efficiency - Debt management practices shall anticipate the potential for refundings in the future. When bonds are issued, careful attention shall be paid to the bond structure to address features that may affect flexibility in the future.

3. If approved by the Board of Trustees, the Chief Business Officer shall obtain external financial expertise for reviewing, analyzing, and presenting a written debt assessment report as to the terms and conditions associated with the proposed debt obligation, including but not limited to: purpose of the debt, length of the debt, interest rates, amortization of the debt, debt repayment plan, budget impact, etc.

4. The external financial expert's debt assessment report shall be submitted to the District Auditor for review and comment.

5. The Chief Business Officer shall provide the external debt assessment report and Auditor's comments, along with a Debt Management Plan outlining the proposed

repayment plan, to the Budget Committee, College Council, and college community as a whole for consideration.

6. If justified and approved by the Superintendent/ President, the recommendation to incur additional debt, including the debt assessment report and Auditor comments, will be presented to the Board's Finance & Audit Committee for approval.

7. If approved by the Board's Finance & Audit Committee, a Special Study Session will be held by the Board of Trustees to review, discuss, and consider the implications and impact on the District's budget and operations with or without the debt acquisition.
    a. The external financial expert will present the debt assessment report.
    b. The District's Auditor will present their comments/concerns.
    c. The Chief Business Officer will present the justification for the debt acquisition and the Debt Management Plan.
    d. College constituent groups will be afforded the opportunity to comment on the proposed debt acquisition.

8. The proposed debt acquisition will be presented to the Board of Trustees for 1st Read (no action) and 2nd Read (action) prior to final approval.