SMMUSD Financial Oversight Committee
Date: Thursday, January 6, 2022
Time: 6:00 pm to 8:00 pm
Via Zoom by phone at: 669-900-6833 or online at:
https://zoom.us/j/87194305360?pwd=bWl2Umh6akdwdEV5b3Z6VFJ2NHl6UT09
Meeting ID: 871 9430 5360 / Passcode: Oversight1 - Per Assembly Bill 361 Issued By Governor Gavin Newsom and SMMUSD Board of Education Resolution No. 21-12

AGENDA

Assembly Bill 361 (9/2021) added section 54953(e) to the Government Code, authorizing a local agency to use teleconferencing without complying with the teleconferencing requirements imposed by the Ralph M. Brown Act during a declared state of emergency under specific scenarios. The law remains in effect until January 1, 2024. Due to the state of emergency proclaimed by Governor Newsom in response to the COVID-19 pandemic and its highly contagious variants, and as authorized by per AB 361 and SMMUSD Board of Education Resolution No. 21-12, the January 6, 2022 FOC meeting will be held virtually. Members of the public can observe the FOC meeting and give public comment virtually by submitting a Google survey "sign up".

The intent is not to limit public participation, but rather to protect public health by following the Governor's Stay at Home executive order and the LA County's Safer at Home order. Persons wishing to address the Committee regarding an item that is scheduled for this meeting must submit a Google survey "sign up" prior to discussion of that item. Persons wishing to address the Committee regarding an item that is not scheduled on this meeting's agenda may speak during the Public Comments section by submitting the Google survey "sign up" at the beginning of the meeting.

Instructions for public comments

1. Submit a Google survey "sign up" at https://forms.gle/KHFk8zsmDaPnP5wj6. This survey will take the place of the "speaker chits" available at meetings.
2. Speakers will fill in their name and select if they wish to address the committee regarding a specific agenda item or during General Public Comments.
3. Speakers are asked to attend the FOC meeting virtually through the call-in number at the top of the agenda.
4. When it is time for the speakers to address the committee, their name will be called.
5. As with all meetings, once discussion begins on an agenda item, any speakers who sign up after that time will be given one minute to speak.

STANDARDS OF BEHAVIOR THAT PROMOTE CIVILITY AT ALL PUBLIC MEETINGS:

Treat everyone with respect and courtesy.	Keep an open mind and, if merited, allow yourself to be persuaded to change your opinion.
Listen to others respectfully.	Acknowledge dissension as a civic right and as a tool to use to reach the best decisions.
Agree to disagree, and don't make it personal; discuss the issue, not the person.	Accept responsibility and maintain self-control.

Instrucciones para comentarios del público

1. Una encuesta de Google "registrarse" https://forms.gle/VnzEy8qbCC1oWvtV8. Esta encuesta ocupará el lugar de las "fichas" disponibles en las reuniónes.
2. Los miembros del público las completarán con su nombre y seleccionarán si desean dirigirse a la junta con respecto a un punto específico de la orden del día o durante los comentarios públicos generales.

3. Se pide a las personas que deseen hacer comentarios que asistan a la reunión de la junta virtualmente a través del enlace que contiene la invitación de llamada de conferencia en la parte superior de la agenda.
4. Cuando llegue el momento de que el público se dirija a la junta directiva, se mencionará su nombre.
5. Al igual que las demás reuniónes, una vez que comience el debate sobre un punto de la orden del día, los oradores que se inscriban despúes de ese momento, tendrán un minuto para hablar.

NORMAS DE CONDUCTA QUE PROMUEVEN LA CIVILIDAD EN TODAS LAS REUNIONES PÚBLICAS:

Tratar a todas las personas con respeto y cortesía.	Mantener la mente abierta, y si la ocasión lo amerita, permitir ser persuadido a cambiar de opinión.
Escuchar a los demás de manera respetuosa.	Reconocer el disenso como un derecho cívico y como una herramienta para tomar las mejores decisiones.
Aceptar las diferencias y no tomarlas de forma personal; debatir el asunto, no la persona.	Aceptar la responsabilidad y mantener el autocontrol.

I. Call to Order *(5 min)*

II. Approval of Agenda *(5 min)*

III. Approval of FOC Meeting Minutes *(5 min)* December 7, 2021

IV. Discussion/Action Items

A. District Audit Report – Eide Bailly LLP *(45 min)*
https://drive.google.com/file/d/1v9N_OMSsJBuQmRaIYklDllk3VpJlp9rM/view?usp=sharing

B. Measure R Audit Report – Eide Bailly LLP *(30 min)*
https://drive.google.com/file/d/1325JpCBsTz2YSsNKEWrGRUtqcDXuNyU_/view?usp=sharing

C. Presentation of Special Education mid-year report *(45 min)*
https://www.smmusd.org/cms/lib/CA50000164/Centricity/Domain/300/FinReports/SPEDReporttoFOC010622.pdf

D. Update on Debt Policy *(15 min)*

E. Update from Nominations Ad-hoc Committee: FOC Vacancy Candidate Recommendation – Ryan Chin *(15 min)*
https://drive.google.com/file/d/1GbpDH_ZvZMAvV6xpopogukM55GAp7tZB/view

V. Ad hoc Subcommittee Report *(15 min)*

A. Budget Recommendations: *Mr. Jacobson, Mr. Covington, Mr. Beekman, Mr. Rotgin*

B. Tax Revenue and Assessed Valuation: *Mr. Farivar, Mr. Kremer, Mr. Crawford, Mr. Beekman*

C. Bond Oversight: *Mr. Kremer, Mr. Crawford, Ms. Mevasse, Mr. Rotgin*

D. Measure R Reporting and Process Review: *Mr. Crawford, Mr. Landres, Ms. Maniar*

E. Financial Communication and Reporting: *Mr. Landres, Ms. Maniar, Ms. Mevasse, Mr. Jacobson*

F. Nomination: *Mr. Covington, Mr. Kremer, Ms. Maniar, Mr. Farivar*

VI. Receive and File *(Limited Discussion)*

A. 2021-22 Financial Oversight Committee (FOC) Conflict of Interest Pledge
https://drive.google.com/file/d/1yspMXfYkbpnxTTq_yQK5YKtvpiocdu3B/view?usp=sharing

B. School Services of California – November 18, 2021 "*LAO Issues Bright Forecast, Increased Funding for K-12*"
https://drive.google.com/file/d/1nDlKk4I4_q6BoFjcLcg6s6A-HXafydLk/view?usp=sharing

C. School Services of California – November 30, 2021 "*Revenues Continue to Beat Projections in November Finance Bulletin*"
https://drive.google.com/file/d/1Yo77V4pz6HSUaS-oFoH0He43-D1OdZmn/view?usp=sharing

VII. Public Comments

A. Public Comments is the time when members of the audience may address the Committee on items not scheduled on the meeting's agenda. All speakers are limited to three (3) minutes. When there are a large number of speakers, the Chair may reduce the allotted time to two (2) minutes per speaker. The Brown Act (Government Code) states that Committee members may not engage in discussion of issues raised during "XIII. Public Comments" except to ask clarifying questions, make a brief announcement; make a brief report on his or her own activities, or to refer the matter to staff. This Public Comment section is limited to 20 minutes. If the number of persons wishing to address the Committee exceeds the time limit, additional time will be allowed at the discretion of the Chair.

VIII. Committee Comments

IX. Next Meeting:

- Thursday, February 24, 2022 - Zoom
- Tuesday, March 23, 2022
- Tuesday, May 24, 2022
- Thursday, June 16, 2022
- TBD (July 2022) * Please note: This is a Joint Meeting / Study Session with the Board of Education – *SMMUSD Office Board Room, 1651 16th Street.*

X. Adjournment

Future Meetings will be held monthly in the Board Room at the District's Administrative Offices, 1651 16th Street, Santa Monica, California, unless otherwise noted.

In compliance with the Americans with Disabilities Act, for those requiring special assistance to access the meeting room, to access written documents being discussed at the meeting, or to otherwise participate at the meetings, please contact the Office of Assistant Superintendent, Business and Fiscal Services at 310-450-8338 for assistance. Notification at least 48 hours before the meeting will enable the District to make reasonable arrangements to ensure accessibility to the meeting and to provide required accommodations, auxiliary aids or services.

TO:	FOC
FROM:	FOC Bond Oversight Subcommittee
DATE:	December 29, 2021
RE:	Proposed Changes to the District's Debt Issuance and Management Policy

The FOC Bond Oversight Subcommittee has identified a number of issues in the draft proposed revisions to the District's Debt Issuance and Management Policy as provided by District staff (attached) on December 3. The Subcommittee views these items as changes which are inconsistent with the tone and intent of past discussions involving the Subcommittee, staff and FOC board liaisons. The first section below sets forth those issues we believe are of greater concern, while the second section outlines issues of lesser, albeit still noteworthy, concern. The bracketed letters below refer to corresponding sections in the attached draft that have been similarly marked for reference purposes. The marked draft of the policy also includes some additional, minor edits. In general, the FOC's suggested revisions to the policy are intended to create more transparency and accountability to the District's debt issuance and management process in a pragmatic manner.

Significant Issues

1. [A] ***FOC Consultation on Proposed Financings***. We believe it is in the best interests of the District, and certain stakeholders such as taxpayers, for staff to have meaningful consultations with the FOC in connection with each financing prior to Board action. We are concerned that the process set forth for in the draft is hollow, limiting and does not provide for any meaningful collaboration. As proposed, the FOC will be presented with details regarding a proposed financing at a single meeting at which the FOC can provide comments. This approach does not afford the FOC the time to meaningfully consider any proposals, thereby limiting the usefulness of the committee and its expertise and judgment. We would propose that a mechanism be put in place for true consultation which would include time to study the proposal, the ability to ask questions and convey recommendations.

   Draft Language (suggested changes marked): The District's Financial Oversight Committee (FOC) is an advisory committee to the Board. In connection with each financing and prior to Board action of said proposed financing, the FOC shall convene a meeting at which District staff presents the reasons for the proposed financing and related preliminary structuring details to the members of the FOC, and the members of the FOC have an opportunity to comment on said financing. In advance of such meeting, the District staff shall provide the members of the FOC with adequate information to support the District staff's recommendations. The FOC's comments shall be communicated to the Board by District staff prior to Board action on the proposed financing. Decision-making power with respect to District financings, debt and related considerations are vested in the District Board.

2. [B] ***GO Bond Limitations***. We believe that there was a drafting error in the section stating the limitations on GO Bond issuances. As currently drafted, the statement implies that there is only a 2.5% limitation on bonds issued pursuant to a Proposition 39 voter authorization. The 2.5% aggregate debt limit applies to all GO Bonds, not only to Proposition 39 authorizations.

   Draft Language (suggested changes marked): GO Bonds issued pursuant to a Proposition 39 voter authorization may only be issued in compliance with the tax rate projection requirements

($60/$100K assessed value). The District's total outstanding GO Bond debt is limited to 2.50% of the taxable assessed value within its boundaries as set forth in the Education Code. The District Board may determine to seek a waiver of bonding capacity in accordance with procedures set forth State law.

3. [C] ***Lease/Equipment Financing***. We believe there was a drafting error in the section which states that ***each*** long-term lease shall have annual payment limitations of up to 3.0% of unrestricted general fund revenues. The 3.0% limitation should be an aggregate of ***all*** long-term leases.

4. [D] ***Refunding and Restructuring***. The Subcommittee believes the language below added to the section addressing the review of an NPV savings analysis of a proposed refunding is drafted in a manner which will not provide for impartial analyses, but rather will inappropriately influence the process in favor of proceeding with a refunding transaction when the two NPV savings requirements have not been met, and the Subcommittee strongly encourages removal of this passage.

   Language added to the Policy by staff, the municipal advisor or investment banker: "In cases where a proposed refunding does not meet the criteria in 1) or 2) above, the District should conduct a sensitivity analysis to evaluate the likelihood of a future refunding providing similar savings to taxpayers. A determination of how high future interest rates can increase from current interest rates where the projected savings to taxpayers is identical in both analyses should be evaluated to determine the worthiness of proceeding with refunding certain maturities that do not meet objective 1). Future interest rates should be compared to a number of historical interest rate averages in this exercise."

5. [E] ***Selection of Method of Sale***. The Subcommittee believes that the new language (set forth below) provides a biased and unnecessary road map to justify foregoing a competitive sale in favor of a negotiated sale.

   New Language with suggested edits from the Subcommittee: "In selecting a method of sale to present to the District Board, the primary factor to be considered is the sale method most likely to achieve the lowest financing cost to the District. Other secondary considerations will include current volatility in bond markets, the complexity of the financing structure, financing timeline considerations, and the goals to be achieved by the financing."

6. [G] ***Refunding and Restructuring***. The draft provides that: "The District may undertake current or advance refinancings provided such refinancings are in compliance with all applicable legal requirements at the time of issuance." The Subcommittee believes that this statement is too broad. We do not believe that all "legal" advance refundings are necessarily advisable. Further, the rest of the policy sets forth relevant parameters which may be inconsistent with the foregoing statement. We think it appropriate to qualify the above language by adding "and otherwise consistent with the other provisions of this policy" at the end of the language in the current draft.

7. [F] ***Engagement of Financing Team Members***. The FOC's recommendation has been altered in the current draft in a manner that hollows the intent. The new draft provides that service providers may be retained on a sole source basis "if an RFP or RFQ process would not be in the District's interests ***or based on other factors or considerations***." [emphasis added] This

language is extremely subjective and open ended and makes it very easy to adulterate the process. The Subcommittee recommends removing the highlighted language.

8. [G] ***Refunding and Restructuring***. The draft provides that: "The District may undertake current or advance refinancings provided such refinancings are in compliance with all applicable legal requirements at the time of issuance." The Subcommittee believes that this statement is too broad. We do not believe that all "legal" advance refundings are necessarily advisable. Further, the rest of the policy sets forth relevant parameters which may be inconsistent with the foregoing statement. We think it appropriate to qualify the above language by adding "and otherwise consistent with the other provisions of this policy" at the end of the language in the current draft.

Other Issues

9. [H] ***New Money Bond Issuances:*** The draft language has changed the intent as provided in the recommendation by the FOC. The FOC sought to address a practical situation that if there were unspent funds available from prior issuances, that it might not be necessary or advisable to take on the burden of issuing larger amounts of new debt. The language was changed in the current draft to be a compliance issue eliminating the focus on appropriately sizing a new issuance.

   Draft Language (suggested changes marked): *New Money Bond Issuances*: For tax-exempt new money bond issuances, the District shall size the bond issuance consistent with the "spend-down" requirements of the Internal Revenue Code, taking into account unexpended proceeds of prior issuances at the time an issue is sized, and within any limits approved by the District's voters. In considering such unspent bond proceeds of another issue on hand, the District shall examine the spend down expectations and legal requirements applicable to the prior issue to ensure continued compliance prior to issuance of the proposed issue. 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.

10. [I] ***Long-Term Debt.*** The FOC recommendation provided that long-term debt will not be used to fund District operations. The draft has changed the proposed "will" to "should". We believe that the default should be not to use such debt for operations outside extraordinary circumstances allowing some flexibility where it can be justified and propose revising the draft language as follows:

    Long-Term Debt: Debt issues may be used to finance essential capital facilities, projects and certain equipment where it is appropriate to spread the cost of the projects over more than one budget year. Long-term debt will not be used to fund District operations except in extraordinary circumstances.

11. [J] ***Use of General Obligation Bonds***. The FOC had suggested that, in the event projected tax rates of GO Bond issuances exceed the maximum projected tax rates presented to voters at election, the District provide an independent third-party analysis to support the rationale and net benefit for issuing bonds in a manner which exceeds the levels presented to voters. This provision was omitted in the draft. We recommend adding such provision to the policy.

Santa Monica-Malibu USD | BP 3470 Business and Noninstructional Operations

Debt Issuance and Management

Purpose of Policy. The Board of Education is committed to long-term capital and financial planning and recognizes that the issuance of debt is a key source for funding the improvement and maintenance of school facilities and managing cash flow. Any debt issued by the district shall be consistent with law and this policy. This policy provides written guidelines for the issuance of indebtedness by the Santa Monica-Malibu Unified School District in satisfaction of the requirements of S.B. 1029, codified as part of Government Code Section 8855.

Administration of Policy by District Officials. The District's Assistant Superintendent of Business & Fiscal Services is the designated administrator of this policy. Proposed debt issuances and related considerations presented to the Board for authorization shall be in compliance with this policy. Signing authority for all final debt documentation and certifications is vested in the District Superintendent, the Assistant Superintendent of Business & Fiscal Services, the President of the Board, and any other officer identified by the District Board with authority to execute said documentation.

Annual Review of Policy. The Assistant Superintendent of Business & Fiscal Services will review this Policy by June 30 of each year for the purpose of identifying necessary or advisable amendments, if any, due to changes in law, new guidelines or recommendations of other relevant authorities with respect to debt management policies, or in order to make clarifying or other desired changes. If necessary or advisable amendments are identified, then the Assistant Superintendent of Business & Fiscal Services will submit an updated Policy to the Board for consideration.

Goals

This Policy provides a framework for debt management and capital planning by the District. This Policy has been developed to meet the following 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 or budget.

4. Establishing debt policy goals related to the District's planning goals and objectives.

5. 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.

6. Maintaining full, complete and timely financial disclosure and reporting.

7. Ensuring compliance with applicable State and Federal laws.

Purposes for Which Debt Proceeds May be Used

The laws of the State of California (the "State") authorize the District to incur debt to make lease payments, contract debt, borrow money, and issue bonds for school improvement projects. The District is authorized to contract debt to acquire, construct, reconstruct, rehabilitate, replace, improve, extend, enlarge, and equip such projects; to refund existing debt; or to provide for cash flow needs.

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

There are a number of State laws that govern the issuance of general obligation bonds ("GO Bonds") by school districts. Sections 1(b)(2) (Proposition 46) and 1(b)(3) of Article XIII A (Proposition 39) of the State Constitution allow the District to issue GO Bonds. The statutory authority for issuing GO Bonds is contained in Education Code Section 15000 et seq. Additional provisions applicable only to Proposition 39 GO Bonds are contained in Education Code Section 15264 et seq. An alternative procedure for issuing GO Bonds is also available in Government Code Section 53506 et seq.

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

The District may deem it necessary to issue TRANs to finance cash flow requirements under certain conditions such as when there is a projected negative cash position in anticipation of revenues to come from State or other local sources. 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.

General operating costs include, but are not limited to, those items normally funded in the District's annual operating budget.

The District's Superintendent, or designee, will review potential financing methods to determine which method is most prudent for the District. Potential financing sources include, but are not limited to tax and revenue anticipation notes, temporary borrowing from the Los Angeles County Treasurer and Tax Collector, and internal temporary interfund borrowing.

[A] The District's Financial Oversight Committee (FOC) is an advisory committee to the Board. In connection with each financing and prior to Board action of said proposed financing, the FOC shall convene a meeting at which District staff presents the reasons for the proposed financing and related preliminary structuring details to the members of the FOC and the members of the FOC have an opportunity to comment on said financing. In advance of such meeting, the District staff shall provide the members of the FOC with adequate information to support the District staff's recommendations. The FOC's ~~Said~~ comments shall be communicated to the Board by District staff prior to Board action on the proposed financing. Decision-making power with respect to District financings, debt and related considerations are vested in the District Board.

Types of Debt That May be Issued

1. Short-Term Debt: The District may issue fixed-rate and/or variable rate short-term debt, which may include TRANs, when such instruments allow the District to meet its cash flow requirements. The District

may also issue bond anticipation notes ("BANs") to provide interim financing for bond projects that will ultimately be paid from GO Bonds.

[I] 2. Long-Term Debt: Debt issues may be used to finance essential capital facilities, projects and certain equipment where it is appropriate to spread the cost of the projects over more than one budget year. Long-term debt ~~should~~will not be used to fund District operations except in extraordinary circumstances.

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.

GO Bond measures can be approved by voters on a District-wide basis, or, alternatively, GO Bond measures may be presented to voters within a School Facilities Improvement District (SFID) which has been formed by the District in accordance with State law for the purpose of financing facilities, improvements and equipment within the boundaries of the SFID. The District has formed two SFIDs: SFID No. 1 (Santa Monica Schools) and SFID No. 2 (Malibu Schools).

[B] GO Bonds issued pursuant to a Proposition 39 voter authorization may only be issued in compliance with the tax rate projection requirements ($60/$100K assessed value). The District's total outstanding GO Bond debt is limited to ~~and bonding capacity limitations (~~2.50%~~)~~ of the taxable assessed value within its boundaries as set forth in the Education Code. The District Board may determine to seek a waiver of bonding capacity in accordance with procedures set forth State law.

The District may also enter into long-term leases and/or participate in the sale of certificates of participation or lease revenue bonds for public facilities, property, and equipment. These obligations do not constitute indebtedness under the state constitutional debt limitation and, therefore, do not require voter approval

[C] 3. Lease/Equipment Financing: Lease-purchase obligations or appropriation leases are a routine and appropriate means of financing capital equipment and certain capital facilities. The term of lease financings may be short-term or long-term but in either case shall not exceed the combined useful life of the projects financed with the proceeds thereof. Leases may be executed as privately placed leases and as leases executed in connection with certificate of participation or lease revenue bond financings, However, because lease obligations might impact general fund budget flexibility, the District shall have a goal of limiting aggregate annual payments on ~~each~~ all long-term leases to 3.0% of unrestricted general fund revenues. This goal shall not serve as a maximum or cap and the District may take into account considerations at the time of structuring each lease such as available and projected unrestricted reserves, projected revenues from all lawful sources, and the District's other outstanding general fund debt undertakings when finalizing the related debt service schedule. In addition, the feasibility of funding capital equipment with pay-as-you-go financing will be considered. The District will monitor the option of refinancing and prepaying outstanding general fund leases with the proceeds of voter-approved GO Bonds provided such refinancing is within the scope of the voter-approved bond measure and all other legal and contractual requirements can be satisfied.

[J] 4. Use of General Obligation Bonds: A significant portion of the District's capital projects are expected to be funded by GO Bond proceeds. Projects financed by the GO Bonds will be determined by the constraints of applicable law and the project list approved by voters. The District will structure each GO Bond issuance and related tax rate projection with the goal of projecting tax rates for bonds issued pursuant to a single bond measure to not exceed the highest tax rate identified to voters in the tax rate statement provided as part of the ballot materials. However, there may be circumstances where the District determines at the time of GO Bond issuance that the projected tax rate will be in compliance with State law but that it may exceed the tax rate estimate presented to voters at the time of the bond election. In such case District staff shall identify to the Board prior to Board authorization of the bond issue the circumstances resulting in the higher tax rate projection, ~~and~~ the rationale for issuing the Bonds at said time and with said related tax rate projections, and an independent third-party analysis demonstrating a net financial benefit of the structure relative to alternative structures.

Relationship of Debt to and Integration with District's Capital Improvement Program or Budget

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 or replacements.

District staff have responsibility for the planning and management of the District's capital improvement program subject to review and approval by the Board of Education. 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.

Refunding and Restructuring

Periodic reviews of outstanding debt will be undertaken to identify opportunities to refinance and/or restructure outstanding debt. Economic refundings undertaken to reduce overall debt service requirements for cost savings will be considered when there is a net economic benefit of the refunding. Non-economic refundings undertaken for restructuring purposes may be considered to achieve objectives such as changing covenants, repayment or optional redemption provisions, and other identifiable benefits.

[G] A "current refunding" occurs when tax-exempt refunding bonds are issued 90 or fewer days before the optional redemption date of the refunded bonds. An "advance refunding" occurs when tax-exempt refunding bonds are issued 91 or more days in advance of the refunding bonds' optional redemption date. In 2017, the IRS code was modified to preclude the issuance of tax-exempt bonds to advance refund existing bonds when there was previously a one-time exception. There is no limit on the number of times that bonds may be current refunded (which may be subject to a future change in federal tax law following the date of adoption or amendment of this Policy). The District may undertake current or advance refinancings provided such refinancings are in compliance with all applicable legal requirements at the time of issuance and otherwise consistent with the other provisions of this policy.

The District shall review a net present value (NPV) savings analysis of any proposed refunding of each maturity of the debt to be refinanced to make a determination regarding the cost-effectiveness of the proposed refunding. The District will proceed with an economic refunding of a maturity only when both of the requirements below are met. Refundings which do not meet these two requirements, but have the potential to achieve other financing objectives, will be considered on a case-by-case basis.

1) The projected NPV savings, expressed as a percentage of the par amount of refunded debt, are no less than three percent (3%) for a tax-exempt current refunding and five percent (5%) for a taxable or tax-exempt advance refunding.

The higher NPV savings threshold for an advance refunding takes into consideration the often one-time only nature of an advance refunding as well as the longer refunding escrow period wherein the escrow investment rate is usually less than the interest cost of the refunded debt, thereby creating negative arbitrage (cost of carry).

2) The refunding must be minimally efficient, with the projected NPV savings exceeding the amount of any negative arbitrage in the refunding escrow.

[D] ~~In cases where a proposed refunding does not meet the criteria in 1) or 2) above, the District should conduct a sensitivity analysis to evaluate the likelihood of a future refunding providing similar savings to taxpayers. A determination of how high future interest rates can increase from current interest rates where the projected savings to taxpayers is identical in both analyses should be evaluated to determine the worthiness of proceeding with refunding certain maturities that do not meet objective 1). Future interest rates should be compared to a number of historical interest rate averages in this exercise.~~

Policy Goals Related to District's Planning Goals and Objectives

In following this Policy, the District shall pursue the following goals:

1. The District shall strive to fund capital improvements from voter-approved GO Bond issues to preserve the availability of its General Fund for District operating purposes and other purposes that cannot be funded by such bond issues.

2. To the extent applicable, 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.

3. 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.

4. The District shall, with respect to GO Bonds, 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.

5. The District shall consider factors such as market conditions, District cash flow, and other legal considerations whether imposed by State or federal law including the anticipated spend-down of debt proceeds, among other factors, when timing the issuance of debt.

6. The District shall determine the amortization (maturity) schedule which will fit best within the overall debt structure of the District at the time the new debt is issued.

7. The District shall match the term of the issue to the useful lives of assets funded by that issue whenever practicable and economical, while considering repair and replacement costs of those assets to be incurred in future.

8. The District shall, when issuing debt, assess financial alternatives to include new and innovative financing approaches, including whenever feasible, categorical grants, revolving loans or other State/federal aid, so as to minimize the encroachment on the District's General Fund.

9. The District will examine and consider taxable or other financing structures authorized by federal tax law which may be or become available as alternatives to the issuance of traditional tax-exempt obligations, such as tax credit or tax subsidy obligations. Factors to examine and consider shall be whether the financing can achieve the same project objectives as other methods, whether the alternative results in lower financing costs than other financing methods and whether the alternative is expected to provide other benefits which are in the best financial interests of the District and its taxpayers. The analysis shall consider any additional risks and/or compliance costs of the alternative financing structure, including in the case of federal subsidy bonds, the partial reduction or full loss of the federal tax subsidy.

10. The District shall, when planning for the sizing and timing of debt issuance, consider its ability to expend the funds obtained in a timely, efficient and economical manner and in accordance with "spend-down" requirements of federal tax law for tax-exempt obligations, as applicable.

Internal Control Procedures for Issuance of Debt to Ensure Intended Use of Proceeds

1. 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. In addition, the average life of tax-exempt financing shall not exceed 120% of the average life of the assets being financed. The District shall also consider the overall impact of the current and future debt burden of the financing when determining the duration of the debt issue.

2. Debt Structure:

A. GO Bonds:

i. [H] *New Money Bond Issuances*: For tax-exempt new money bond issuances, the District shall size the bond issuance consistent with the "spend-down" requirements of the Internal Revenue Code, taking into account unexpended proceeds of prior issuances at the time an issue is sized, and within any limits approved by the District's voters. In considering such~~f there will be~~ unspent bond proceeds of another issue on hand~~ at the time of the issuance of a new proposed issue~~, the District shall examine the spend down expectations and legal requirements applicable to the prior issue to ensure continued compliance prior to issuance of the proposed issue. 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.

ii. *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.

iii. *Maximum Maturity*: All bonds issued by the District shall mature within the limits set forth in applicable provisions of the Education Code or the Government Code. The final maturity of tax-exempt bonds will also be limited to the average useful life of the assets financed or as otherwise required by tax law.

iv. *Taxable Bonds*: Taxable bonds shall be considered for funding projects which do not satisfy the "spend-down" requirements of the Internal Revenue Code, for refunding GO Bonds when the issuance of tax-exempt refunding GO Bonds is not a viable option in the near term, and for other purposes when the requirements for tax-exemption cannot be met, including when a taxable financing alternative is enacted pursuant to federal law.

B. Lease-Purchase Obligations:

The final maturity of equipment or real property lease obligations will be limited to the useful life of the assets to be financed. Unless required for structuring or other purposes, the District will avoid the use of capitalized interest on new money lease financings to avoid increasing the principal amount of the debt and the related interest expense. New money lease financings in which the project financed serves as the leased asset may require capitalized interest until the District has use and possession of the leased asset. However, when feasible the District may undertake an asset transfer financing in which the leased property is other than the facility under construction in an effort to reduce or eliminate the need for capitalized interest.

3. 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.

[E] 4. Selection of Method of Sale: There are three primary methods of sale: negotiated, competitive, and private placement. All three methods of sale should be evaluated by the Assistant Superintendent of Business & Fiscal Services or other appropriate District official for all debt issuances, with the recommended and selected method of sale presented to the Board in the authorizing resolution. In selecting a method of sale to present to the District Board, the primary factor to be considered is the sale method most likely to achieve the lowest financing cost to the District. Other secondary considerations will include current volatility in bond markets, the complexity of the financing structure, financing timeline considerations, and the goals to be achieved by the financing. ~~In selecting a method of sale to present to the District Board, factors to be considered among others include the method likely to achieve the lowest financing cost to the District, conditions in the financial markets, the complexity of the financing structure, the ability to modify the structure at pricing, the ability to educate potential investors about the District, the debt offering and security, financing timeline considerations, and the goals to be achieved by the financing, shall be evaluated.~~ When a negotiated sale is authorized, the final pricing proposal shall be examined with the assistance of the District's municipal advisor to ensure that interest costs are in accordance with comparable market interest rates and that all parameters identified in the Board resolution have been achieved. When a competitive bidding process is undertaken, submitted bids shall be examined with the assistance of the District's municipal advisor and award shall be based on the best conforming that complies with the terms of the official notice of sale governing the bidding process, which typically provides award shall be made based on the lowest offered True Interest Cost ("TIC"). A private placement sale is 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 expected to be more beneficial to the District than either a negotiated or competitive sale.

[F] 5. Engagement of Financing Team Members: The District requires assistance in its debt undertakings and with respect to certain financial matters by a financing team composed of firms with specialized expertise in the issuance of debt and debt undertakings. The District Board shall confirm the firms which shall serve as municipal advisor, bond and disclosure counsel, and underwriter and approve related contracts or engagement letters relating thereto. The recommendation for the engagement of such firms shall be made by District staff either following a Request for Proposals (RFP) or Request for Qualifications (RFQ) process, or on a sole source basis if an RFP or RFQ process would not be in the District's interests~~ or based on other factors and considerations~~. The term of the contracts for financing team members will be for an initial term of up to five years, which term may be extended or renewed for additional terms by the District Board with approval of a renewal contract, amendment or extension.

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 (if any). The extent of the disclosure may vary depending on the nature of the transaction. Any financing team

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members involved in preparing proposed District debt issuances or who have outside agreements with members so involved may not provide independent analyses of said debt issuances. All financing team members shall abide by the Board's code of ethics, which shall be provided by the District to each of said professionals prior to engagement.

6. Disclosure Requirements: The District shall prepare or cause to be prepared appropriate disclosures as required by Securities and Exchange Commission Rule 15c2-12 and to ensure compliance with applicable laws, regulations and agreements. The Assistant Superintendent of Business & Fiscal Services shall be responsible for the District's disclosure compliance functions, in conjunction with the third party dissemination agent engaged by the District to assist in the complete and timely filings, and in consultation with the District's disclosure counsel, as needed.

7. IRS Compliance: The Assistant Superintendent of Business & Fiscal Services will establish and maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements as required by federal tax regulations. This effort shall include tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebate earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the District's outstanding tax-exempt obligations. The Assistant Superintendent of Business & Fiscal Services may retain a firm to prepare arbitrage rebate calculations and communicate with the IRS.

8. Rating Agency Relations: The District shall maintain effective relations with the rating agencies. The Assistant Superintendent of Business & Fiscal Services shall meet with, make presentations to, or otherwise communicate with the rating agencies on a consistent and as appropriate basis to keep the agencies informed about the District's capital plans, debt issuance program, and other appropriate financial information.

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 only use GO Bond proceeds for the purposes approved by the District's voters; and

2. District staff shall have the responsibility, no less often than annually, to provide to the District's Board of Education a written report which shall contain at least the following information:

(i) The amount of the debt proceeds received and expended during the applicable reporting period; and

(ii) 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.

(iii) 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.

3. The District shall post on the District website the Annual Report of the District's Independent Bond 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.

4. The District shall hire 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.

Legal Reference:

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

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

1.6001-1 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

Policy SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

adopted: May 4, 2017 Santa Monica, California

FOC Bond Oversight Subcommittee

Proposed Changes to the District's

Debt Issuance and Management Policy

Prepared June 20, 2021 ***with edits following 11.15.2021 Zoom Call***

FOC Bond Oversight Subcommittee's Debt Policy Review

- The Board adopted the five-page Debt Issuance and Management Policy (the "Policy") on May 4, 2017

- While the Policy fully complies with the minimum requirements of Senate Bill 1029 signed into law in Sept. 2016, it could be improved into a more robust, comprehensive example of best practices in debt management through implementation of the changes proposed by the FOC Bond Oversight Subcommittee

  - In its credit report dated June 11, 2021, Standard and Poor's commented "we view its guidelines as lacking significant quantitative constraints" in a reference to the Policy

- The FOC Bond Oversight Subcommittee's proposed changes would clarify some of the vagaries in the Policy and improve transparency regarding the District's debt issuance decision-making, yet maintain adequate flexibility for unforeseen circumstances

- In the following pages, sections of the Policy are in *italicized text* and the FOC Bond Oversight Subcommittee's suggestions are indicated by **bold, blue font** ***with additional edits in red, italicized font***

Overview of FOC Bond Oversight Subcommittee's Proposed Changes

- The Assistant Superintendent of Business & Fiscal Services is the designated Policy administrator with ultimate responsibility for analyzing debt issuance options and presenting recommendations to the Board
- The Policy's quantitative constraints regarding the following items should be more specific and assist with the decision-making process related to debt management and issuance
  - The financial burden of long-term lease obligations on the General Fund
  - The relevance of GO Bond tax rates presented to voters at election
  - Metrics and thresholds used to analyze bond refunding opportunities
- The three main methods of sale shall be considered for each debt issuance, and the preferred method shall be the method likely to result in the lowest all-in borrowing cost to the District
- When timing the issuance of debt, the District shall consider market conditions, the projected spend-down of bond proceeds, the cost of carry, and the amount of issued yet unexpended bond proceeds
- Municipal advisors, bond counsel, disclosure counsel, and underwriters will be selected through an RFP/RFQ process with any contracts limited to a maximum term of five years
- The Assistant Superintendent of Business & Fiscal Services will establish and maintain a system of record keeping and reporting to meet the IRS' arbitrage rebate compliance requirements

Policy Section: Introduction and Goals

The Governing Board is committed to long-term capital and financial planning and recognizes that the issuance of debt is a key source for funding the improvement and maintenance of school facilities and managing cash flow. Any debt issued by the district shall be consistent with law and this policy. This policy provides written guidelines for the issuance of indebtedness by the Santa Monica-Malibu Unified School District in satisfaction of the requirements of S.B. 1029, codified as part of Government Code Section 8855.

The Assistant Superintendent of Business & Fiscal Services is the designated administrator of the Policy and has overall responsibility, with the Board's approval, for decisions related to the structuring and sale of all District debt issues. While the District may engage outside municipal advisors, legal counsel, and underwriters, all applicable findings, recommendations, and decisions communicated to the Board shall be issued over his/her/the signature of the Assistant Superintendent of Business & Fiscal Services.

The Assistant Superintendent of Business & Fiscal Services will review this Policy on an annual basis. If there are proposed changes to the Policy, staff will submit an updated Policy to the Board for consideration.

Policy Section: Introduction and Goals (cont'd)

This Policy provides a framework for debt management and capital planning by the District. This Policy has been developed to meet the following 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 or budget.*

4) *Establishing* **debt** *policy goals related to the District's planning goals and objectives.*

5) *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.*

6) **Maintaining full and complete financial disclosure and reporting.**

7) **Ensuring compliance with applicable State and Federal laws.**

Policy Section: Purposes for Which Debt Proceeds May Be Used

The laws of the State of California (the "State") authorize the District to incur debt to make lease payments, contract debt, borrow money, and issue bonds for school improvement projects. The District is authorized to contract debt to acquire, construct, reconstruct, rehabilitate, replace, improve, extend, enlarge, and equip such projects; to refund existing debt; or to provide for cash flow needs.

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

There are a number of State laws that govern the issuance of general obligation bonds ("GO Bonds") by school districts. Sections 1(b)(2) (Proposition 46) and 1(b)(3) of Article XIII A (Proposition 39) of the State Constitution allow the District to issue GO Bonds. The statutory authority for issuing GO Bonds is contained in Education Code Section 15000 et seq. Additional provisions applicable only to Proposition 39 GO Bonds are contained in Education Code Section 15264 et seq. An alternative procedure for issuing GO Bonds is also available in Government Code Section 53506 et seq.

Policy Section: Purposes for Which Debt Proceeds May Be Used (cont'd)

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

The District may deem it necessary **to issue TRANs** *to finance cash flow requirements under certain conditions* **such as a projected negative cash position in anticipation of revenues to come from state or local sources.** *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.*

General operating costs include, but are not limited to, those items normally funded in the District's annual operating budget.

The District's Superintendent, or designee, will review potential financing methods to determine which method is most prudent for the District. Potential financing sources include, but are not limited to tax and revenue anticipation notes, temporary borrowing from the Los Angeles County Treasurer and Tax Collector, and internal temporary interfund borrowing. **The Superintendent*, or designee, will* consult with the Financial Oversight Committee on such financing methods for counsel on best practices.**

Policy Section: Types of Debt That May Be Issued

1) *Short-Term: The District may issue fixed-rate and/or variable rate short-term debt, which may include TRANs, when such instruments allow the District to meet its cash flow requirements. The District may also issue bond anticipation notes ("BANs") to provide interim financing for bond projects that will ultimately be paid from GO Bonds.*

2) *Long-Term: Debt issues may be used to finance essential capital facilities, projects and certain equipment where it is appropriate to spread the cost of the projects over more than one budget year. Long-term debt* **will** ~~*should*~~ *not be used to fund District operations.*

   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. **GO Bonds issued pursuant to a Proposition 39 voter authorization have a maximum tax levy of $60 per $100,000 of taxable assessed value. There is no tax rate limitation for GO Bonds issued under Proposition 46. The District's total outstanding GO Bond debt is limited to 2.5% of the taxable assessed value within its boundaries.**

   School Facilities Improvement District ("SFID") bonds are GO Bonds approved by voters residing in a subset of a school district and repaid from taxes levied on the taxable assessed value of the SFID. On November 6, 2018, voters in Santa Monica authorized *the creation of* SFID No. 1 (Santa Monica Schools) and voters in Malibu authorized *the creation of* SFID No. 2 (Malibu Schools).

Policy Section: Types of Debt That May Be Issued (cont'd)

The District may also enter into long-term leases and/or participate in the sale of certificates of participation or lease revenue bonds for public facilities, property, and equipment. **These obligations do not constitute indebtedness under the state constitutional debt limitation and, therefore, are not subject to voter approval.**

3) *Lease/Equipment Financing: Lease-purchase obligations or appropriation leases are a routine and appropriate means of financing capital equipment and certain capital facilities. However,* **because** *lease obligations* **reduce** ~~*may impact on*~~ *budget flexibility,* **the District will seek to limit aggregate annual payments on all long-term leases to 3.0% of unrestricted general fund revenues***.* **Therefore, efforts will be made to fund capital equipment with pay-as-you-go financing where feasible, and only the highest priority capital purchases will be funded with lease obligations. In particular, long-term lease financing for facilities is appropriate when there is insufficient time to obtain voter approval or in instances where obtaining voter approval is not feasible. The District will consider the future refinancing of long-term leases with GO Bonds.**

4) *Use of General Obligation Bonds: A significant portion of the District's capital projects are expected to be funded by GO Bond proceeds. Projects financed by the GO Bonds will be determined by the constraints of applicable law and the project list approved by voters.* **GO Bonds will be sized and repaid in accordance with the tax rate limits presented to voters at election. If unique circumstances dictate that projected tax rates exceed the presented limits, the District will provide an independent third-party analysis demonstrating a net financial benefit of this structure relative to alternative structures.**

Policy Section: Policy Goals Related to District's Planning Goals and Objectives

In following this Policy, the District shall pursue the following goals:

1) *The District shall strive to fund capital improvements from voter-approved GO Bond issues to preserve the availability of its General Fund for District operating purposes and other purposes that cannot be funded by such bond issues.*

2) *To the extent applicable, 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.*

3) *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.*

4) *The District shall, with respect to GO Bonds, 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.*

5) *The District shall consider market conditions and* **the projected spend-down of bond proceeds** ~~*District cash flows*~~ *when timing the issuance of debt.*

6) *The District shall determine the amortization (maturity) schedule which will fit best within the overall debt structure of the District at the time the new debt is issued.*

Policy Section: Policy Goals Related to District's Planning Goals and Objectives (cont'd)

7) *The District shall match the term of the issue to the useful lives of assets funded by that issue whenever practicable and economical, while considering repair and replacement costs of those assets to be incurred in future.*

8) *The District shall, when issuing debt, assess financial alternatives to include new and innovative financing approaches, including whenever feasible, categorical grants, revolving loans or other State/federal aid, so as to minimize the encroachment on the District's General Fund.*

9) **The District may utilize taxable financing structures permitted by the federal government which are alternatives to the issuance of tax-exempt obligations, such as tax credit or tax subsidy obligations, if they are projected to result in sufficiently lower financing costs versus traditional tax-exempt obligations. The analysis shall consider the additional risks and compliance costs of the alternative financing structure, including the partial reduction or full loss of the federal tax subsidy.**

10) *The District shall, when planning for the sizing and timing of debt issuance, consider its ability to expend the funds obtained in a timely, efficient and economical manner* **in accordance with IRS "spend-down" requirements for tax-exempt obligations, as applicable.**

Policy Section: Refunding and Restructuring

Periodic reviews of outstanding debt will be undertaken to identify refunding (refinancing) opportunities. Economic refundings, reducing overall debt service requirements for cost savings, will be considered when there is a net economic benefit of the refunding. Non-economic refundings (restructurings) may be undertaken to achieve objectives related to changes in covenants, repayment or optional redemption provisions, and operational flexibility.

A "current refunding" occurs when tax-exempt refunding bonds are issued 90 or fewer days before the optional redemption date of the refunded bonds. An "advance refunding" occurs when tax-exempt refunding bonds are issued 91 or more days in advance of the refunding bonds' optional redemption date. In 2017, the IRS code was modified to preclude the issuance of tax-exempt bonds to advance refund existing bonds when there was previously a one-time exception. There is no limit on the number of times that bonds may be current refunded.

~~*The District shall consider the following when making a decision regarding refunding or restructuring existing debt.*~~

1) ~~*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.*~~

Policy Section: Refunding and Restructuring (cont'd)

~~*2) Net Present Value Analysis.*~~ *The District shall review a net present value* **(NPV) savings** *analysis of any proposed refunding* ***of each bond maturity*** *to make a determination regarding the cost-effectiveness of the proposed refunding.* **The District will proceed with an economic refunding *of a bond maturity* only when both of the requirements below are met. Refundings which do not meet these two requirements, but have the potential to achieve other financing objectives, will be considered on a case-by-case basis.**

1) **The projected NPV savings, expressed as a percentage of the par amount of refunded bonds, are no less than three percent (3%) for a tax-exempt current refunding and five percent (5%) for a taxable or tax-exempt advance refunding. The higher NPV savings threshold for an advance refunding takes into consideration its often one-time only nature as well as the longer refunding escrow period wherein the escrow investment rate is usually less than the interest cost of the refunded debt, thereby creating negative arbitrage *(cost of carry)*.**
2) **The refunding must be minimally efficient with the projected NPV savings exceeding the amount of any negative arbitrage in the refunding escrow.**

~~*3) Maximize Expected Net Savings. Another consideration in deciding which debt to refinance and the timing of the refinancing shall be to maximize the District's expected net savings over the life of the debt.*~~

- **This item #3 is unnecessary considering the preceding text.**

~~*4) Comply with Existing Legal Requirements. The refunding of any existing debt shall comply with all applicable State and Federal laws governing such issuance.*~~

- **This item #4 is unnecessary as all debt issued by the District must comply with state and federal laws and regulations. See policy goal #7.**

Policy Section: Internal Control Procedures for Issuance of Debt to Ensure Intended Use of Proceeds

1) *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. In addition, the average life of tax-exempt financing shall not exceed 120% of the average life of the assets being financed. The District shall also consider the overall impact of the current and future debt burden of the financing when determining the duration of the debt issue.*

2) *Debt Structure:*

   A. GO Bonds:

   1. *New Money Bond Issuances: For tax-exempt new money bond issuances, the District shall size the bond issuance consistent with the "spend-down" requirements of the Internal Revenue Code*, **taking into account unexpended proceeds of prior issues at the time an issue is sized,** *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.*

   2. *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.*

Policy Section: Internal Control Procedures for Issuance of Debt to Ensure Intended Use of Proceeds (cont'd)

3. *<u>Maximum Maturity</u>: All bonds issued by the District shall mature within the limits set forth in applicable provisions of the Education Code or the Government Code. The final maturity of tax-exempt bonds will also be limited to the average useful life of the assets financed or as otherwise required by tax law.*

4. *<u>Taxable Bonds</u>: Taxable bonds shall be considered for funding projects which do not satisfy the "spend-down" requirements of the Internal Revenue Code* **and for refunding when the issuance of tax-exempt refunding bonds is not a viable option in the near term.**

B. *Lease-Purchase Obligations: The final maturity of equipment or real property lease obligations will be limited to the useful life of the assets to be financed.* **Unless required for structuring purposes, the District will avoid the use of capitalized interest which increases the bond size and interest expense. New money lease financings may require capitalized interest until the District has use and possession of the leased asset. However, the District may pledge assets other than the facility under construction using an asset-transfer structure to eliminate the need for capitalized interest.**

3) *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.*

Policy Section: Internal Control Procedures for Issuance of Debt to Ensure Intended Use of Proceeds (cont'd)

4) Method of Sale: There are three primary methods of sale: competitive, negotiated, and private placement. The preferred method of sale shall be the method which is likely to result in the lowest all-in borrowing cost to the District. All three methods of sale shall be considered for all debt issuances, because each method has the potential to achieve the lowest financing cost given the right conditions. Any award through negotiation shall be subject to approval by the District, generally by the Assistant Superintendent of Business & Fiscal Services, to ensure that interest costs are in accordance with comparable market interest rates. When a competitive bidding process is deemed the most advantageous method of sale for the District, award will be based upon, among other factors, the lowest offered True Interest Cost ("TIC"). A private placement sale is 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.

5) Engagement of Financing Team Members: Municipal advisors, bond counsel, disclosure counsel, and underwriters will be selected through a Request for Proposals (RFP) or Request for Qualifications (RFQ) process. In isolated instances, such contracts may be awarded on a sole source basis if an RFP or RFQ process would not be in the District's interests. The term of the contracts for municipal advisors, underwriters, bond counsel and disclosure counsel will be for up to five years including extensions at the District's option.

   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. The extent of the disclosure may vary depending on the nature of the transaction. Any financing team members involved in preparing proposed District debt issuances or who have outside agreements with members so involved may not provide independent analyses of said debt issuances. All financing team members shall abide by the Board's code of ethics.

Policy Section: Internal Control Procedures for Issuance of Debt to Ensure Intended Use of Proceeds (cont'd)

6) Disclosure Requirements: The District shall prepare or cause to be prepared appropriate disclosures as required by Securities and Exchange Commission Rule 15c2-12 and to ensure compliance with applicable laws, regulations and agreements. The Assistant Superintendent of Business & Fiscal Services shall be responsible for the District's disclosure compliance functions, in conjunction with the disclosure counsel engaged by the District.

7) IRS Compliance: The Assistant Superintendent of Business & Fiscal Services will establish and maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements as required by federal tax regulations. This effort shall include tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebate earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the District's outstanding tax-exempt obligations. The Assistant Superintendent of Business & Fiscal Services may retain a firm to prepare arbitrage rebate calculations and communicate with the IRS.

8) Rating Agency Relations: The District shall maintain effective relations with the rating agencies. The Assistant Superintendent of Business & Fiscal Services shall meet with, make presentations to, or otherwise communicate with the rating agencies on a consistent and as appropriate basis to keep the agencies informed about the District's capital plans, debt issuance program, and other appropriate financial information.

Policy Section: 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 only use GO Bond proceeds for the purposes approved by the District's voters; and*

2) *District staff shall have the responsibility, no less often than annually, to provide to the District's Board of Education a written report which shall contain at least the following information:* **Note: If previously prepared in compliance with the Policy, these written reports are not publicly available.** ***[staff follow-up needed here]***

   i. *The amount of the debt proceeds received and expended during the applicable reporting period; and*

   ii. *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.*

   iii. *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.*

Policy Section: Use of Proceeds (cont'd)

3) *The District shall post on the District website the Annual Report of the District's Independent Bond 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.*

4) *The District shall hire 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.*

SMMUSD Financial Oversight Committee Meeting Minutes
Date: Tuesday, December 7, 2021
Time: 6:00 pm to 8:00 pm
Location: Zoom
https://drive.google.com/file/d/17HSRd4ovMqX8C5jTvb5Po8FIFV2j4oU0/view

I. Call to Order

6:02 pm

Committee Members:	JW Beekman	Matthew Covington
	Alex Farivar	Seth Jacobson
	Michael Kremer	Shawn Landres
	Payal Maniar	Renu Mevasse
	Michael Rotgin	Zoe Pollack, Malibu student rep
Staff:	Melody Canady	Gerardo Cruz
	David Chiang	Bonnie Kung
Board Liaison:	Keith Coleman	Jon Kean – *departed @ 7:15 pm*
Absent:	Matthew Crawford	Craig Foster

II. Approval of Agenda

6:03 pm A motion was made by Mr. Rotgin and seconded by Ms. Maniar to approve the meeting agenda.

AYES: Nine (9) (Mr. Beekman, Mr. Covington, Mr. Farivar, Mr. Jacobson, Mr. Kremer, Mr. Landres, Ms. Maniar, Ms. Mevasse, Mr. Rotgin)
STUDENT ADVISORY VOTES: One (1) (Ms. Pollack)
NOES: None (0)
ABSENT: One (1) (Mr. Crawford)
ABSTAIN: None (0)

III. Approval of FOC Meeting Minutes

6:05 pm A motion was made by Mr. Covington and seconded by Mr. Jacobson to approve the October 28, 2021 meeting minutes as amended.

Under V.B. Update **On** Refunding Bonds:

~~Ms. Canady responded that said analysis was provided to her before the bond sale.~~

Mr. Kremer noted that the committee did not receive the requested comparison of the taxable vs. tax-exempt refunding option and Ms. Canady clarified that the District did not receive the analysis.

AYES: Eight (8) (Mr. Covington, Mr. Farivar, Mr. Jacobson, Mr. Kremer, Mr. Landres, Ms. Maniar, Ms. Mevasse, Mr. Rotgin)
STUDENT ADVISORY VOTES: One (1) (Ms. Pollack)
NOES: None (0)
ABSENT: None (0)
ABSTAIN: One (1) (Mr. Beekman)

Mr. Beekman abstained as he was not present for the discussion.

IV. Discussion/Action Items

6:12 pm A. 1st Interim Budget Report

Ms. Canady and Mr. Cruz provided the committee with a preview of the 1st Interim Budget report that will be presented at the December 9, 2021 Board meeting.

The following 1st interim documents may be found in the following link:

- Presentation: https://simbli.eboardsolutions.com/Meetings/Attachment.aspx?S=36030435&AID=192798&MID=9314
- Attachment: https://simbli.eboardsolutions.com/Meetings/Attachment.aspx?S=36030435&AID=191122&MID=9314
- Multi Year Projection (MYP): https://simbli.eboardsolutions.com/Meetings/Attachment.aspx?S=36030435&AID=191123&MID=9314
- Fiscal Stabilization Plan: https://simbli.eboardsolutions.com/Meetings/Attachment.aspx?S=36030435&AID=191124&MID=9314
- Standard Account Code Structure (SACS) Report: https://simbli.eboardsolutions.com/Meetings/Attachment.aspx?S=36030435&AID=191125&MID=9314
- Adopted Budget Review Letter From LACOE: First Interim Budget: https://simbli.eboardsolutions.com/Meetings/Attachment.aspx?S=36030435&AID=191126&MID=9314

Ms. Canady reported that the District had a positive certification for its budget at the time of reporting. There is currently a $26.6M two (2)-month reserve, which is 17.51% of the budget. For basic aid districts, the recommendation is to be at the 20-25% range. The district is interested in having a reserve policy, which the staff is hoping to bring forward to the FOC for a later discussion.

The committee raised the question whether the budget was sustainable without the COVID funds and Mr. Cruz answered that the multi-year projections indicated that the current budget trends were sustainable. The Fiscal Stabilization Plan required by LACOE is in the preliminary levels of discussion within the district cabinet. LACOE recommends a $2M decrease in expenditures in the next two fiscal years. The committee suggested setting a timeline for the plan and that providing any further information to the Financial Communications subcommittee would be helpful to better assist in communicating the plan to the public.

Mr. Cruz informed the committee that there was no finding this year for the Food Services Department tracking and enrollment numbers. The committee discussed the impact of SB 634 and universal school meals on the district-provided lunches.

The presentation to the Board of Education on May 20, 2021 by Dr. Mora detailing the allocation of the COVID-19 funds (Agenda Item II.G.1) will be provided to the committee.

B. Update on FOC Recommendations on the District's Debt Policy

This item was discussed during Agenda Item V.C. Bond Oversight Ad hoc Subcommittee report.

V. Ad hoc Subcommittee Report

7:30 pm

A. Budget Recommendations: *Mr. Jacobson, Mr. Covington, Mr. Beekman, Mr. Rotgin*

Mr. Jacobson reported that the subcommittee met with staff to review the 1st Interim Budget. The subcommittee is looking forward to helping with the 2nd Interim Budget to streamline some of the data and provide any assistance regarding the Budget stabilization efforts. Mr. Jacobson stated it would be beneficial to coordinate with the Financial Communications subcommittee at a later meeting.

B. Tax Revenue and Assessed Valuation: *Mr. Farivar, Mr. Crawford, Mr. Kremer, Mr. Beekman*

Mr. Farivar reported that the subcommittee was in the process of scheduling a meeting. The subcommittee will follow up with the point of contact for the city for any updates. Mr. Cruz requested that the meeting occur in January so that the new projections can be incorporated into the 2nd Interim Budget, as of January 31st.

C. Bond Oversight: *Mr. Kremer, Mr. Crawford, Ms. Mevasse, Mr. Rotgin*

Mr. Kremer reported that the subcommittee met with the staff and board liaisons to review the suggested changes for the debt policy. The subcommittee responded with a few additional changes, which was reviewed by the District's bond counsel (Jones Hall). Bond counsel updated the policy, which was shared with the FOC for review and discussion. The subcommittee will meet to further discuss and provide a report to the full committee at the January meeting.

Mr. Kremer explained that the Bond Refunding "101" document was included for the committee as it ties into the debt policy suggested changes on refunding. Metrics were applied to the bond maturity level to show how it changes the outcome of the transaction.

The First Reading of the SMMUSD BP 3470 and the Bond Refunding "101" document may be found at the following links:

- First Reading – SMMUSD BP 3470: https://drive.google.com/file/d/1zqYYmyYvEllpJDMP8NUHaxVtxjavtOCk/view?usp=sharing
- Bond Refunding "101": https://drive.google.com/file/d/1pECWk_ybIbVi_G2ncy0FMgQMmEXMU7t2/view?usp=sharing

D. Measure R Reporting and Process Review: *Mr. Crawford, Mr. Landres, Ms. Maniar*

Ms. Maniar reported that the subcommittee met with Dr. Mora and discussed the Measure R process, timeline and existing documentation. Dr. Mora will send the subcommittee a more detailed description of the various components and existing line items within the Measure R budget. The subcommittee will work on making recommendations and hopes to have updates at the next meeting. Mr. Landres stated that the subcommittee will need to be very focused in their requests and how they are hoping to provide support to the staff. The range of expectations regarding the level of communication about Measure R was discussed.

E. Financial Communication and Reporting: *Mr. Landres, Ms. Maniar, Ms. Mevasse, Mr. Jacobson*

Mr. Landres reported that the subcommittee was planning to meet the 3rd week of January. Ms. Maniar stated the importance of being intentional about the subcommittee's scope of work so that they can deliver something tangible.

F. Nomination: *Mr. Covington, Mr. Kremer, Ms. Maniar, Mr. Farivar*

Mr. Covington reported that the subcommittee conducted a review of the six (6) active applications from the previous round. Two (2) candidates were selected to proceed to the interview process. One (1) applicant declined due to a prior commitment to another committee. The subcommittee will interview the other candidate and decide on the next steps.

Mr. Landres requested that the subcommittee confirm the proper procedures for filling the vacancy in the FOC. The subcommittee will look into the appropriate process and proceed accordingly.

VI. Receive and File (Limited Discussion)

7:47 pm

A. CERBT Account Update Summary – 9/30/21
https://www.smmusd.org/cms/lib/CA50000164/Centricity/Domain/300/FinReports/CERBTAccountUpdateSummary093021.pdf

B. Exhibit A – Costs of Issuance by Vendor
https://drive.google.com/file/d/1x2bxgcyhG-tK1Fke7Wx06bSwBQvB1U-h/view?usp=sharing

C. 2021 Refunding General Obligation Bonds Escrow Efficiency Calculations
https://drive.google.com/file/d/1J-iNqQSNVf7AMunw99ep3Ql8LVX_49jM/view?usp=sharing

D. Draft Audit Report – 20/21
https://drive.google.com/file/d/1v9N_OMSsJBuQmRaIYklDllk3VpJlp9rM/view?usp=sharing

E. Draft Measure R Audit Report – 20/21
https://drive.google.com/file/d/1325JpCBsTz2YSsNKEWrGRUtqcDXuNyU_/view?usp=sharing

VII. Public Comments None

VIII. Committee Comments None

IX. Next Meeting: Thursday, January 6, 2022 - Zoom

X. Adjournment: The meeting adjourned at 7:48 p.m.