# DEBT MANAGEMENT

**THE SCHOOL BOARD HEREBY ESTABLISHES PARAMETERS AND GUIDING PRINCIPLES FOR GOVERNING THE ISSUANCE, MANAGEMENT, CONTINUING EVALUATION OF, AND REPORTING ON ALL DEBT OBLIGATIONS ISSUED BY THE SCHOOL BOARD OF BROWARD COUNTY, FL (SBBC).**

## I. PURPOSE

The main purpose of this debt management policy is to assist The School Board in the implementation and management of its overall strategy by contributing to the continued financial health and stability of the District while assuring the future access to the debt markets to meet both scheduled and unscheduled needs. Hence, the SBBC hereby establishes the following rules concerning the issuance and management of debt.

1. The SBBC will not issue long-term debt obligations or use long-term debt proceeds to finance current operations.

2. The SBBC will utilize debt obligations only for acquisition, construction or renovation of projects or the acquisition of equipment that cannot be funded from current revenue sources or in such cases wherein it is more equitable to finance the project or equipment over its useful life.

3. The SBBC will not issue short-term debt obligations for an aggregate term of more than five (5) years.

4. Cash surpluses, to the extent available and appropriable, should be used to finance scheduled capital improvements.

5. The SBBC will issue debt only for the purposes of construction or acquiring educational facilities, for making renovations to existing educational facilities, for acquiring equipment and for refunding outstanding debt when sufficient cost savings can be realized or it is otherwise advantageous to do so. The SBBC may also enter into long-term leases for the acquisition of major equipment when it is cost justifiable to do so.

6. All capital improvements financed through the issuance of debt will be financed for a period not to exceed the useful life of the facilities or equipment, but in no event to exceed 30 years.

7. The SBBC shall not construct or acquire an educational facility if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility.

8. The SBBC will, at all times, manage its debt and sustain its financial position in order to seek and maintain the highest reasonable credit rating possible.

9. The SBBC will ensure that an adequate system of internal control exists so as to provide reasonable assurance as to compliance with applicable laws, rules, regulations, and covenants associated with outstanding debt.

10. Revenue sources will be pledged for debt only when legally available. In those situations where revenues have previously been used for operations, maintenance and general operating expenditures they will be pledged for debt only when other sufficient revenue sources are available to replace same.

11. The SBBC will monitor outstanding debt in relation to existing conditions in the debt market and may refund any outstanding debt when sufficient cost savings can be realized. Outstanding debt may be refunded as long as the net present value savings between the refunded bonds and the refunding bonds is equal to or greater than 3% without extending the maturity of the debt being refunded. The SBBC may also refund existing debt for the purpose of revising existing bond covenants to meet particular organizational and/or strategic needs of the SBBC when it is advantageous to do so.

12. Credit enhancements (insurance, letters of credit, etc.) will be used only in those instances where the anticipated present value savings in terms of reduced interest expense exceeds the cost of the credit enhancement.

13. In order to maintain a stable debt service burden, the SBBC will attempt to issue debt that carries a fixed interest rate. However, it is recognized that certain circumstances may warrant the issuance of variable rate debt.

14. The amount (percentage) of variable rate debt outstanding shall not exceed 15% of the total outstanding debt.

15. While the SBBC is generally adverse to the use of derivatives (SWAPS, CAPS, COLLARS, etc.), it will consider their use as a hedge against future interest rate risk when appropriate, but in no event will derivatives be used for speculative purposes. Further, the SBBC will use derivatives only when it has a complete understanding of the derivative product and the potential risks associated with same.

## II. GENERAL POLICY

Under the governance and guidance of Federal and State laws and the SBBC's rules and resolutions, the SBBC may periodically enter into debt obligations to finance the construction, acquisition of or the renovation of educational facilities and equipment or other assets or to refinance existing debt for the purpose of lowering the SBBC's overall debt service cost. It is the SBBC's desire and direction to assure that such debt obligations are issued and administered in such fashion as to obtain the best long-term financial advantage to the SBBC and residents of Broward County, while making every effort to maintain and improve the SBBC's bond ratings and reputation in the investment community.

The SBBC may also desire to issue debt obligations on behalf of external entities for the purpose of constructing educational facilities or other assets which further the goals and objectives of the District. In such case, the SBBC shall take reasonable steps to confirm the financial feasibility of the project and the financial solvency of the borrower; and, take all reasonable precautions to ensure the public purpose and financial viability of such transactions.

## III. FINANCIAL ADVISORY COMMITTEE

The Financial Advisory Committee shall be appointed by the Superintendent as set forth in its bylaws and shall be responsible for reviewing Requests For Proposals for the selection of financing team for SBBC debt issuances. The Committee shall also review proposals received and recommend the selection process to the School Board. No School Board Members shall serve on the committee.

Meetings will be open to the public and official minutes will be taken and copies made available upon request.

When warranted, the Committee will also consider issues related to outstanding and proposed debt obligations, and will make recommendations to the Board on issues affecting or relating to the credit worthiness, security and repayment of such obligations, including but not limited to the procurement of services, structure, repayment terms and covenants of the proposed debt obligation, and issues which may affect the security of the obligations and ongoing disclosure to Certificate and/or Bondholders and interested parties.

## IV. CAPITAL PLANNING AND DEBT FINANCING ACTIVITIES

Upon adoption of the Capital Budget, the Financial Advisory Committee shall review the approved budget and shall establish a proposed schedule for the sale of debt obligations during the ensuing fiscal year and for the remaining years of the SBBC's Capital Improvement Program. In so doing, the Committee shall consider any existing capital outlay proceeds that may be reprogrammed to finance new projects, the timing of cash flow needs of the projects, expectations of market interest rate movements, and such other factors as the committee may deem relevant. It is understood that due to market considerations, changes in size and/or timing of capital projects, and other factors outside the control of the SBBC, the schedule for the sale of debt obligations is a planning tool only~~,~~ and not a commitment by the SBBC or the Financial Advisory Committee to sell such debt obligations at such time.

## V. DEBT MANAGEMENT POLICIES

A. The legal, economic, financial and market conditions associated with the issuance of debt obligations are dynamic, unpredictable and usually constantly changing. Consequently, the decision to issue debt obligations is best made on a case-by-case basis and only after careful timely analysis and evaluation of all relevant factors. Some of the factors that should be considered include, but are not limited to, the following:

1. Legal constraints on debt capacity and various financing alternatives.

2. Constraints contained in currently outstanding debt documents.

3. The urgency of the capital requirements to be met and economic costs of delays.

4. Proper balance between internal and external financing.

5. Current interest rates and other market considerations.

6. The financial condition of SBBC.

7. The types, availability and stability of revenues to be pledged for repayment of the debt.

8. Type of debt obligations to be issued.

9. The nature of the projects and/or equipment to be financed.

## VI. COMPLIANCE WITH FEDERAL TAX LAW PROVISIONS, INCLUDING ARBITRAGE REQUIREMENTS

The SBBC will comply with all relevant federal tax law provisions including arbitrage requirements. The SBBC will take all appropriate actions to assure that the interest paid, on its debt obligations, to investors remain exempt from federal income tax. Additionally, the SBBC will establish and maintain a sound arbitrage compliance program that incorporates strategies to limit negative arbitrage. Neither the SBBC nor any other person under its control or direction will make any investment or other use of bond proceeds in any manner which would cause the bonds to be deemed private activity bonds or arbitrage bonds by the Internal Revenue Service.

## VII. CONTINUING DISCLOSURE POLICY

It is the policy of the SBBC to endeavor to provide full and fair disclosure in connection with the initial sale and distribution of its publicly marketed debt instruments and to provide appropriate ongoing secondary market information, in compliance with the requirements of applicable federal and state securities laws, rules and regulations, including Securities and Exchange Commission Rule 15c 2-12.

## VIII. CREDIT RATING

The SBBC will strive to maintain excellent ratings with the nationally recognized rating agencies.
The SBBC will also strive to maintain an uncommitted general fund balance adequate to address the District’s emergency needs (See Policy 3111).

## IX. SPECIFIC DEBT POLICIES, PERCENTAGES AND MEASUREMENT

This section of the Debt Management Policy establishes the target debt policies, percentages and measurements for the SBBC in the following categories:

- Measurement of Future Flexibility
- Constraints and Measurements

A. Measurements of Future Flexibility

As the SBBC periodically addresses its ongoing needs, the Superintendent and the District's Board shall ensure that the future elected officials will have the flexibility to meet the capital needs of the SBBC. Since State law imposes limits on the amount of debt which may be incurred, this policy sets forth those limits and establishes the following targets which help provide future flexibility.

1. General Obligation Debt (must be approved in advance by referendum)

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| Debt Limit | Not Applicable |
| Goal/Target | As approved by the voters and within legal limits |

2. Revenue Anticipation Notes (Pledge of Capital Outlay Millage)

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| Debt Limit | One-fourth of Operating Revenue received in prior fiscal year. |
| Goal/Target | Not to exceed $100 million (new and/or renewal notes) in any fiscal year. |

3. Certificates of Participation (Source of Repayment)

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| Debt Limit | Up to 75% of Capital Outlay |
| Goal/Target | 60% of Capital Outlay Millage |

4. Local Government Infrastructure (Pledge of Sales Tax)

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| Debt Limit | Debt service equal to one-half or full penny sales tax. Must be approved by referendum. |
| Goal/Target | one-half penny sales tax |

5. School Capital Outlay (Pledge of Sales Tax)

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| Debt Limit | Debt service equal to up to one-half penny sales tax. Must be approved by referendum. |
| Goal/Target | one-half penny sales tax |

B. Constraints and Measurements

The following constraints and measurements shall govern the issuance and administration of debt obligations:

1. Purpose of Issuance - The SBBC will issue debt obligations for acquiring, constructing or renovating educational facilities or equipment or for refinancing existing debt obligations. Projects must be designed as public purpose projects prior to funding.

2. Maximum Maturity – All debt obligations shall have a maximum maturity of the earlier of: (i) the estimated useful life of the Capital Improvements or equipment being financed; or, (ii) thirty years; or, (iii), in the event they are being issued to refinance outstanding debt obligations recommended by the Financial Advisory Committee. The final maturity of refunding bonds cannot exceed the final maturity of the debt being refunded.

3. Capitalized Interest – Subject to Federal and State law, interest may be capitalized from the date of issuance of debt obligations through the completion of construction projects.

4. Bond Covenants and Laws – The SBBC shall comply with all covenants and requirements of the bond resolutions, and State and Federal laws authorizing and governing the issuance and administration of debt obligations.

5. Debt Service Limits – The SBBC will not issue any debt obligations that would cause any of the goals or targets of the aforementioned to be exceeded.

## X. INVESTMENT OF BOND PROCEEDS

Safety of capital is regarded as the highest priority in handling of the investment of bond proceeds. All other investment objectives are secondary to the safety of capital. Each investment transaction shall seek to first ensure that capital losses are avoided.

Bond proceeds are only to be invested in permitted investments, as defined in either bond agreements, resolutions, law or the SBBC's written investment policy #3110. Neither the SBBC nor any other person under its control or direction will make any investment of bond proceeds in any manner which would cause the bonds to be deemed private activity bonds or arbitrage bonds by the Internal Revenue Service. The SBBC will comply with all federal tax arbitrage regulations.

## XI. REPORTING ON OUTSTANDING DEBT

No later than December 31 of each year, an annual report will be provided to the School Board covering the previous fiscal year that will include information on the SBBC's outstanding and proposed debt. Additionally, the report shall include information on the amount of debt outstanding by type as well as comparison of such data to the goal/target set-forth in this Debt Management Policy. Further, the report shall include an evaluation of savings related to any refinancing activity as well as any changes in the District's credit rating.

## XII. BUDGETING DEBT SERVICE

Annually, the District's Superintendent will include in the proposed budget presented to the District's Board for its consideration and approval the appropriations necessary to make the required debt service payments during the next fiscal year.

## XIII. REVIEW OF POLICY

This policy should be reviewed by the Financial Advisory Committee, with the involvement of appropriate District staff and SBBC's financial advisors, at least once every three years. However, reviews may be made as often as deemed necessary.

Authority:
F.S. 1001.41 (1), (2)
F.S. 1011.14 (2)
F.S. 1011.71 (e)
F.S. 1011.73 (1), (2)
F.S. 212.054
F.S. 212.055(2)
F.S. 212.055(6)

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