SANTA MONICA COLLEGE

Administrative Regulation
Chapter 6 –Business and Fiscal Affairs

AR 6116 DEBT ISSUANCE

Borrowing for Capital Needs

The Vice President, Business/Administration has determined that the following methods shall have the listed priority in electing how the District shall borrow for stated capital purposes with a preference first for tax-exempt debt and second for taxable debt:

1. General Obligation Bonds ("G.O. Bonds")
2. Bond Anticipation Notes ("BANs")
3. Lease-purchase agreements ("Leases")
4. Certificates of Participation ("COP")

- **Sizing of Transactions.** The District's debt issuance shall be offered in the principal amounts that reflect the projected capital needs of the District for at least the upcoming calendar year, taking into account the costs of issuance of each transaction, interest rates that are obtainable for larger versus smaller financings and the amount of staff time available to support each financing.

- **Factors in Structuring Each Debt Issuance.** At the discretion of the Vice President, Business/Administration, any debt issuance may be pursued as (1) a competitive sale (2) a negotiated offering or (3) a private placement. In making his or her election under this provision, the Vice President, Business/Administration shall consider conditions in the municipal markets, the type and complexity of the transaction, the timing of the issuance and the costs of issuance.

- **Procedures Applicable to Each Debt Issuance.** Prior to commencing documentation for any debt issuance, the Vice President, Business/Administration, in conforming with the Securities and Exchange Commission (SEC) rules 15Ba1-1 through 15Ba1-8 and 15Bc4-1, aka the "Registration of Municipal Advisors Rule", and in consultation with the the Districts Municipal Advisor (MA), will prepare and submit to the Board the choice(s) for the Underwriter(s) for that issuance, specifying the Manager(s) and/or Co-Manager(s). The proposed underwriting group for that issuance shall be provided on an informational basis to the Board prior to the Board's considering an action to authorize the debt issuance.

- **Credit Enhancement of Debt Issuance.** The Vice President, Business/Administration, upon consultation with the MA, shall determine whether it is financially advantageous to the District to purchase Bond Insurance to secure the repayment of its publicly offered debt obligations. The costs of Bond Insurance on debt issuance must demonstrate an interest rate savings to the District and/or its taxpayers. For other than G.O. Bond issuances, the Vice President, Business/Administration may, upon consultation with the FA, determine to obtain credit enhancement through the issuance of letters of credit or standby purchase agreements, upon his or her determination that it is financially advantageous to the District to do so.

Refunding. Refunding of taxable or tax-exempt debt, whether advance refunding or current refunding, shall be done as negotiated offerings or private placement pursuant to the above provisions; no new proposals to act as Paying Agent shall be required in connection with a refunding. Refunding shall be considered by the Vice President, Business/Administration when present value savings reach or exceed 3%. BANs shall be refunded, or "rolled over" by other BANs or paid off by the issuance of subsequent G.O. Bonds in accordance with their terms, without any requirement of a showing of savings. Certificates of Participation may be refunded with the proceeds of G.O. Bonds at any time, without a demonstration of present value savings.

Borrowing for Operation and Cash Flow Needs

The Vice President, Business/Administration has determined that the following methods shall have the listed priority in electing how the District shall borrow for operational and cash flow purposes:

1. Inter-Fund Borrowing (Education Code 42603)
2. Borrowing from the Los Angeles County Treasury (Article XVI, Section 6, of the California Constitution)
3. Tax and Revenue Anticipation Notes (TRANs)

- **Inter-Fund Borrowing.** Temporary inter-fund cash borrowing should be done when sufficient cash is needed to pay obligations for current operating requirements incurred in the fiscal year. Temporary transfer of cash between District funds is permitted by Education Code Section 42603.

  The following restrictions apply to this authorization:

  1. Maximum amount of authorized borrowing shall be determined annually based on cash flow analysis
  2. The borrowing shall not exceed 75 percent of any moneys held in any fund
  3. Funds borrowed shall not be available for appropriation or considered income to the borrowing fund
  4. The borrowing shall occur only when the fund receiving the money will earn sufficient income during the current fiscal year
  5. The amount borrowed shall be repaid either in the same fiscal year or in the following fiscal year if the borrowing takes place within the final 120 calendar days of a fiscal year

- **Borrowing from the Los Angeles County Treasury.** Cash borrowing from the County Treasury should be done when sufficient cash is needed to pay obligations for operating costs incurred in the current fiscal year. Article XVI, Section 6, of the California Constitution allows for borrowing from the Los Angeles County Treasury.

  The following restrictions apply to this authorization:

  1. Maximum amount of authorized borrowing shall be determined annually based on cash flow analysis
  2. The borrowing shall not exceed 85 percent of the anticipated revenues accruing to the District
  3. The borrowing shall not be made prior to the first day of the fiscal year nor after the last Monday in April of the same fiscal year
  4. The borrowing shall be replaced from revenues accruing to the District before any other obligation of the District is met from such revenue

- **Tax and Revenue Anticipation Notes.** TRANs (Tax and Revenue Anticipation Notes) shall be issued, in accordance with applicable provisions of the Government Code of the State, when necessary to address projected cash flow deficits of the District, and the proceeds applied to such purposes. The proceeds of tax-exempt TRANs may not be applied to the payment of any other tax-exempt obligation of the District.

  The following restrictions apply to this authorization:
  1. The District shall issue TRANs in a principal amount sufficient to cover the projected cash flow deficits of the District during the fiscal year in which issued
  2. TRANs should be repaid within twelve (12) months of the issuance

Post Closing

Tax Compliance

To ensure compliance with tax law requirements applicable to each of the District's tax-exempt issuances, whether comprising bonds, bond anticipation notes, certificates of participation or other instruments, the Vice President, Business/Administration shall implement processes that monitor and ensure compliance with the following:

- **Qualified use of proceeds and financed property (Private Usage).** Qualified use requirements require monitoring of the various direct and indirect uses of bond-financed property over the life of the bonds.

- **Arbitrage yield restriction and rebate.** Arbitrage requirements require monitoring over the life of the bonds to determine whether both the yield on investments acquired with bond proceeds are properly restricted and whether the District must file Form 8038-T to pay a yield reduction payment and/or rebate payment.

Disclosure Compliance

To ensure that the District's Disclosure Documents comply with all applicable federal securities laws and promote best practices regarding the preparation and review of the District's Disclosure Documents, the Vice President, Business/Administration shall implement processes to ensure disclosure compliance and incorporate the following:

- **Compliance with Law.** To assure compliance with applicable law when making Public Statements,
- **Reduce Liability.** To reduce exposure to liability for misstatements and omissions in Public Statements,
- **Reduce Borrowing Costs.** To reduce borrowing costs by promoting good investor relations, and
- **Protect the Public.** To protect the residents of the District and other third parties from misstatements or omissions in Public Statements.

Approved 4/28/2015
Reviewed and Approved by Senior Staff: 6-8-2021