Board File: DFD
Debt Management Policy

This policy will define the governing authority, scope, debt limits, structures, issuance, and management practices of debt. This policy is designed to improve on the quality of decisions for determining the amount and type of debt, issuance process and ongoing management of outstanding debt.

Governing Authority

Upon the approval of the electorate, the district is authorized by the Colorado Constitution and State Law to incur general obligation debt and general obligation refunding debt within the established limitations as set by the General Assembly. The district is also authorized under Colorado law to enter into short-term loans and issue tax anticipation notes for working capital purposes, provided that such loans are payable in the same fiscal year in which they are issued.

Additionally, the District may enter into Certificates of Participation (COP) and/or lease purchase agreements when a highly important capital need of the District exists and is referenced in the District's Master Capital Plan and no authorization (i.e. voter approved election) to issue General Obligation Bond debt or proceeds from previous bond sales exists to meet this need.

Scope

The provisions of this Debt Management Policy (the Policy) shall apply to all funds of the district. It applies to short and long-term obligations. Long term obligations include general obligation bonds, certificates of participation and leases. Short term obligations include tax anticipation notes, bond anticipation notes, lines of credit, and state interest free loans. This policy does not cover pension obligations. The Chief Financial Officer and staff, under guidance of the Superintendent, is the designated person responsible for implementing this policy.

Legal Debt Limit

The district follows Colorado Revised Statute (C.R.S.) 22-42-104 that limits general obligation (G.O.) bonded indebtedness to not be greater than twenty percent of its assessed property valuation. State Law states the District can use the alternate method of six percent of its actual property value, if greater. This alternate method would require additional language to future ballot questions. Legally defeased debt is not considered outstanding for this calculation. The district will not issue general obligation debt beyond the bond referenda approved by the voters.

District Debt Limits

For non-voter approved Certificates of Participation (COPs), the Board of Education shall limit the amount of aggregate yearly lease payments of principal and interest in an amount that does not exceed 1% of the yearly General Fund Revenue or $5 million (note: General Fund revenues for DCSD include charter school revenue), whichever is greater. The intent of this limitation is to provide the District the ability to meet capital requirements in a manner that minimizes the impact on the General Fund with consideration to the potential impact on the District's credit rating.

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Public Policy

1. **Purpose**

The laws of the State of Colorado authorize the district to engage in debt issuance and confer upon it the power and authority to use debt for the purposes of financing the costs of acquiring, constructing, reconstructing, rehabilitating, replacing, improving, extending and equipping real and personal property; to refund existing debt; and/or to provide for cash flow needs. When considering any debt, the potential impact of debt service and additional operating costs on the operating budget and taxpayers of the district, both short (payable within the same fiscal year issued) and long-term shall be evaluated.

2. **Types of Debt and Structure**

a. **Short-Term**: The district may issue fixed-rate and/or variable rate short-term debt with maturities that do not extend past the end of the current fiscal year. Short-term options may include tax anticipation notes, revenue anticipation notes, bond anticipation notes, or other such debt instruments as line of credit when necessary or prudent to allow the district to meet its cash flow requirements. The district will also evaluate the State interest free loan program operated by the State Treasurer as an option for short-term debt. The district may issue bond anticipation notes to provide interim financing for bond projects that ultimately will be taken out by permanent general obligation bonds.
b. **Long-Term**: The district may issue fixed-rate and/or variable rate long-term debt for the following purposes:
    - Acquire or purchase buildings or grounds
    - Enlarging, improving, remodeling, repairing, or making additions to any school building
    - Constructing or erecting school buildings
    - Equipping or furnishing any school building but only in conjunction with a construction project for a new building or for an addition to an existing building or in conjunction with a project for substantial remodeling, improvement, or repair of an existing building
    - Improving school grounds
    - Acquiring, constructing, or improving any capital asset that the district is authorized by law to own
    - Supporting charter school capital construction needs
    - To refinance existing debt when it is in the best interest of the district and its taxpayers.

    Projects that are not appropriate for spreading costs over future years will not be financed with long-term debt.

    i. General Obligation Bonds, Upon receiving voter approval to do so, the district may issue general obligation bonds for the lawful purposes approved by the voters. Such bonds normally will have fixed rates of interest, a debt service structure as determined by the Board in consultation with the Fiscal Oversight Committee, and have a final maturity of 20-30 years. The average life of debt issued to finance assets shall be generally no greater than the projected average life of the assets being financed. The use of other interest rate modes, different amortization of debt and longer or shorter maturities will be permitted if the market conditions and nature of the financing justify doing so.

ii. Certificates of Participation, The district also may enter into real or personal property sale or lease/lease-back or sale/lease-back arrangements to support the sale of certificates of participation ("COPs") to fund the acquisition and construction of real or personal property. Such COP financings shall not require prior voter approval and shall be subject to annual appropriation. COPs normally will have fixed rates of interest, a debt service structure as determined by the Board in consultation with the Fiscal Oversight Committee, and a final maturity that matches the useful life of the asset being financed. The use of other interest rate modes, different amortization of debt and longer or shorter maturities will be permitted if market conditions and nature of the financing justify doing so.

A COP may also be issued on behalf of a charter school when the proposal represents a win/win partnership with the District and the following apply:

- The charter school has been in existence for a minimum of three years and is expanding to a new site, or a new charter school with a solid financial plan projected through five years;
- The charter school agrees to locate in a geographical region of the District that has high student growth and results in the lessening of overcrowding;
- The charter school agrees to work with the District in determining the charter school instructional program to ensure the District is incentivizing the offering of numerous educational choices throughout the District;
- The charter school has realistic enrollment projections - a minimum of 400 students - that easily provide enough per pupil revenue (PPR) so that the COP lease payments are no more than 20% of charter revenues;
- The charter school agrees to provide space for 50% of their capacity to a larger attendance boundary meeting the District's need to provide classroom space for Douglas County student growth. Please reference the associated Long Range Planning Committee policy, "Charter School Enrollment Preferences". The intent is that the charter boundary encompasses two to three elementary and middle school boundaries to provide choice for all students attending any of the District neighborhood schools or the new charter

iii. Call Provisions, The Chief Financial Officer, based upon an analysis of the economics of callable versus non-callable features, shall determine the provisions for each issue in accordance with statute.

iv. Credit Enhancements, The district may enter into credit enhancement agreements such as municipal bond insurance, surety bonds, letters of credit and lines of credit with commercial banks, municipal bond insurance companies, or other financial entities when their use is judged to lower borrowing costs, eliminate restrictive covenants, or have a new economic benefit to the financing. The credit rating of any counterparty must be at least in the "A" category by Moody's or Standard & Poor's at the time of the transaction. The district shall use a competitive process to select providers of such products to the extent applicable.

v. Premiums and Discounts, In the structure of a debt offering, original issue premiums and discounts will be used as deemed to be in the district's financial interest considering current investor demand, future cash flows and expected interest rate savings. The use of any generated premiums will follow the general guidelines and purpose of the associated debt.

c. **Equipment Financing:** Lease obligations are a routine and appropriate means of financing capital equipment and expanding district office or learning space. However, lease obligations also have an impact on budget flexibility. Other financing options will be evaluated before a lease is considered.

3. **Relationship and Integration of Master Capital Plan:** The Long Range Planning Committee publishes a Master Capital Plan on a yearly basis. This document encompasses a five-year period and represents an important tool in the district's planning decision making. It is also used to prioritize funding for capital reinvestment and new construction. Capital needs identified are supported partially through annual allocation of funding from the general fund and debt financing.

Financial Restrictions

Debt shall comply with all applicable laws, regulations and covenants and shall not be issued so as to jeopardize the status of outstanding debt. Long-term debt shall not be incurred to fund operations. Capital improvements may be financed utilizing the issuance of general obligation bonds, subject to voter approval or through certificates of participation. The district will analyze the affordability of proposed debt financing to ensure feasibility, taking into account financial resources, alternative funding sources and its capital operational needs to develop the most appropriate, cost-effective way to meet those needs. The analysis will evaluate the additional debt burden to the district as well as using metrics related to population, property values, wealth indicators and other such credit factors. The analysis will also consider any impacts to the district's credit ratings.

Professional Services

Underwriters and financial advisors will be selected through a Request for Proposal (RFP) or Request for Qualifications (RFQ) process, whichever is most appropriate for the given circumstances. In isolated instances, such selection may be accomplished on a sole source basis if it is clear that a RFP/RFQ process would not be feasible or in the district's interest. The type of financial advisory or underwriting services and the method of selecting the firm or firms to provide such services shall be determined by the Chief Financial Officer and staff. All financial advisors and underwriting firms employed by the district shall comply with the provisions and rules of the Municipal Securities Regulatory Board when performing services for the district. Professional services selection should be reviewed after five years with renewals at the district's option.

Refunding and Restructuring

The district shall consider refunding or restructuring outstanding debt when financially advantageous or beneficial for debt repayment and structuring flexibility. The Chief Financial Officer shall review a net present value analysis of any proposed refunding in order to make a determination regarding the cost-effectiveness of the proposed refunding. The target net present value savings as a percentage of the refunded aggregate principal amount shall be no less than 3% unless at the discretion of the Chief Financial Officer, a lower percentage is more applicable, for situations including but not limited to, maturities with only a few years until maturity or COPs being defeased or redeemed from proceeds of general obligation bonds or other structuring considerations. In accordance with Board of Education and state statute, the Chief Financial Officer shall be empowered to restructure escrow funds for the district's refunded bonds and COPs when savings can be achieved. The Chief Financial Officer shall review a savings analysis of any proposed restructuring in order to make a determination regarding its cost-effectiveness. Any savings from such restructuring shall be applied in accordance with legal and tax considerations and legal analysis at the time such savings are available.

Bond Redemption Fund

The Bond Redemption Fund of the district comes directly and solely out of the levy of taxes initiated by the successful bond elections of the district. In anticipation of interest and principal payments, the Board will adopt annual resolutions authorizing the withdrawal from the Bond Redemption Fund of the amounts needed to meet the payments due and the deposit of such sums of money with the depository for honoring the bonds and interest coupons presented for payment.

In general, the district will hold no more than one year's worth of debt service at the end of the calendar year. The Board may approve additional reserves on an annual basis, with justification.

Special Situations

Changes in the capital markets, district programs and other unforeseen circumstances may produce situations that are not covered by the Policy. These situations may require modifications or exceptions to achieve policy goals. Management flexibility is appropriate and necessary in such situations, provided specific authorization is received from the Board.

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Derivatives

The district may undertake hedging strategies in connection with debt issuance. Prior to the use of any hedging strategy, the Chief Financial Officer will develop an appropriate policy regarding interest rate swaps, interest caps and collars, rate locks and other derivatives for approval by the Board on an individual issuance basis. Such policy, if approved, will be integrated into this policy.