Debt Management Policy Guidelines

Purpose

The purpose of the Anoka-Hennepin Public School District Debt Management Policy is to establish and maintain well defined debt management guidelines for issuing new debt as well as managing outstanding debt to sustain a strong debt management program. This program will be used to address the funding needs for operations and capital assets which are identified in the 10 year Capital Facilities/Improvement Plan and are necessary to meet the district's mission, vision and goals.

Authorized Borrowing Types

Debt is a financing tool which should be judiciously used within the District's legal, financial and debt market capacities. The District will consider the following range of debt structures which when combined allow for flexibility in responding to future needs, do not utilize all available debt capacity, continue to emphasize credit considerations, and match well with the useful life of the assets for which debt is incurred.

<u>Cash Management</u>– If the district has analyzed its annual cash flow and has determined that there are insufficient funds during any month of the year to pays its usual lawful current obligations; the district has authority to borrow funds. Authorized methods are:

1. Borrowing to cover insufficient fund to pay orders – The district may enter into agreement with a bank (Minn. Stat. # 123B.12a) or may enter into line of credit agreements with a financial institution (Minn. Stat. # 123B.12b).
2. Tax Settlement Advance – The district, upon written request and approval to the county treasurer, may receive advances from tax collections prior to the next settlement and distribution.
3. Emergency State Aid – The district may appeal to the commissioner to revise the state aid payment dates and percentages prescribed in statute if there is an emergency or serious cash flow problem that cannot be resolved by issuing other forms of indebtedness (Minn. Stat.#127A.45, Subd.4)
4. Tax Anticipation Certificates – The district may issue certificates of indebtedness which are issued in the calendar year in which the taxes are due and payable. (Minn. Stat. # 126C.50 to 126C.56)
5. Aid Anticipation Certificates – The district may issue certificates of indebtedness which are issued in the fiscal year (July 1 – June 30) in which the aids are receivable. (Minn. Stat. # 126C.50 to 126C.56)
6. Reverse Purchase Agreements – The district may receive additional cash when it sells a security it has purchased with an agreement to repurchase at a fixed future date and price. (Minn. Stat. #475.51, Subd.12).

<u>Short-Term and Long-Term Debt</u> – If the district has analyzed its capital needs and has determined that funding is necessary to provide for those needs, the district has authority to borrow funds. Authorized methods are:

1. Voter Approved General Obligation Bond Issue – The district may issue bonds for the acquisition or betterment of school facilities (Minn. Stat. #475.52,Subd. 52).
2. Special Authorities for Non-Voter Approved General Obligation Bond Issue – The district may issue bonds for deferred maintenance to school facilities (Minn. Stat. #123B.59 and 123B.591).

The district may issue bonds for building calamities (Minn. Stat. #123B.60). The district may issue bonds for certain capital improvements for energy modifications, disability access, life and safety codes, and modifying buildings & equipment for security (Minn. Stat. #123B.62).

3. Voter Approved Capital Projects Referendum – The district may fund capital projects with the establishment of an annual levy to finance a building project over a period of years without the need to borrow and pay interest costs (Minn. Stat. #123B.63).
4. Purchase Certain Capital Equipment – The district may issue certificates of indebtedness or capital notes to purchase capital equipment having an expected useful life at least as long as the terms of the certificates or notes, not to exceed five years (Minn. Stat. #123B.61).
5. Tax-Exempt Lease Purchase Program – The district may arrange for a lease purchase to fund a wide variety of capital needs. These obligations are not included in net debt since the district must have the right to terminate a lease purchase agreement at the end of any fiscal year during its term (Minn. Stat. #465.71).

Restrictions / Limitations of Debt Issuance
The District will structure its debt in compliance with all federal, state, and local requirements as to repayment terms and seek to repay its debt in an expeditious manner within the District's overall financial objectives and in consideration of the useful life of the project and dedicated repayment revenue sources. The District will include the following when developing debt issuance plans.

1. Minnesota Statues limit the amount of net long-term debt to 15 percent of actual market value of all taxable property situated within its corporate limits
2. Anoka-Hennepin school district will limit the amount of net long-term debt to 2 percent of actual market value of all taxable property situated within its corporate limits
3. The term for short term financing shall in no case exceed 5 years
4. The term of long term financing shall in no case exceed 30 years
5. The average (weighted) bond maturities shall be kept at or below 25 years
6. The District will structure its debt to ensure the earliest possible maturity and strive to maintain stable ratio of debt service expenditures as a percentage of total expenditures not to exceed 10%

Debt Issuance Process
1. The District normally will rely on specifically generated funds and/or annual operational funds to finance its capital and cash flow needs on a pay as you go basis.

2. The use of short-term debt is appropriate for some capital equipment purchases or to satisfy the cash flow needs of the District. When pay as you go basis is not sufficient and short term financing becomes necessary the district will determine the following:

- Analysis of why pay as you go basis is not sufficient
- Identify the appropriate type of authorized borrowing
- Determine the financing guidelines and financial professionals appropriate for the type of borrowing
- Obtain two or more quotes when lease financing is more economically beneficial
- Obtain proper school board authorization

3. The use of long-term bonds should be used to finance planned capital facilities projects where it is appropriate to spread the cost over multiple years and future tax payers will benefit from the investment.

a. Analysis of why the capital facilities project is necessary for the district
b. Identify the appropriate type of authorized borrowing
c. Determine the appropriate external financial professionals

   Financial Advisor – The District's Financial Advisor will work with District staff to:
   - Insure that the District's bonds are issued at the lowest possible interest cost and are structured in accordance with the District's financing guidelines
   - Prepare the Notice of Sale, Preliminary Official Statement, and the Official Statement
   - Obtaining the Credit Enhancement Program through the State of Minnesota
   - Evaluate the bids submitted and recommend that they be accepted or rejected
   - Review draft closing documents and monitor the closing process
   - Prepare and submit the District's Annual Disclosure Report in accordance with SEC Rule 15c2-12
   - Assist in establishing repayment schedules that complement existing requirements and maintain a repayment pace acceptable to credit rating agencies

   Bond Counsel – The District's Bond Counsel will:
   - Certify that the District has the legal authority to issue bonds
   - Prepare required orders, resolutions, and tax certificates
   - Work with the Attorney General to obtain approval of the bond issue
   - Provide a legal opinion as to the enforceability and the federal income tax implications of the bonds
   - Coordinate the closing transactions

   Paying Agent / Registrar – The District's Paying Agent will:
   - Authenticate the bonds
   - Send/receive transfers of money at closing
   - Maintain a listing of bondholders and applicable addresses
   - Receive principal and interest payments from the District and remit to bondholders
   - Represent bondholders in case of default

d. Determine methods of sale: competitive and negotiated. The conditions under which each type of bond sale is best used are provided below. The District reserves the right to select the method it deems most effective to market, price and place its bonds.

   Competitive Sale:
   - Bond prices are stable and/or demand is strong
   - Market timing and interest rate sensitivity are not critical to the pricing
   - There are not complex explanations required during marketing regarding the issuer's projects, political support, funding or credit quality
   - The bond type and/or structural features are considered to be conventional

   Negotiated Sale:
   - Bond prices are volatile
   - Demand is weak or supply of competing bonds is high
   - Market timing is important, such as for refunding's
   - Sale and marketing of the bonds could require complex explanations regarding the issuer's projects, political support, funding or credit quality

- The bond type and/or structural features are considered to be non-standard

e. Obtain a credit rating from at least one nationally recognized bond rating agency on all bond issues. There are currently three nationally recognized rating agencies: Moody's Investors Service, Standard & Poor's Rating Agency, and Fitch Ratings, Inc. Rating agencies assign a credit rating to bonds based on their assessment of the District's financial position and ability to make full and timely payments of principal and interest, and provide a ratings report to the market prior to the sale. The District will strive to maintain excellent bond ratings through:
    - Strong financial management practices
    - Timely disclosure of annual financial information including the Comprehensive Annual Financial Report prepared by management and attested to by the external auditors
    - Maintaining good relationships with bond rating agencies including site visits or meetings in person when required

f. The District's Financial Advisor will work with District staff to insure that the timing of bond sales coincide with having bond proceeds available for projects prior to the execution of construction or purchase contracts.

g. Obtain proper school board authorization

h. Disclosure Requirements – The Securities and Exchange Commission (SEC) regulates both primary disclosure (the initial marketing of bonds) and continuing disclosure (the ongoing information to the market about the status of the issue and issuer). The Securities and Exchange Commission Rule 15c2-12, as amended, requires the District to provide updated annual financial information no later than December 31st to designated state and national information repositories. Timely and accurate information can improve the marketability of the District's bonds.

i. The District will work with our Financial Advisor to prepare and file the annual report with each nationally recognized municipal securities information repository (NRMSIR) and the state information depository (SID) in order to fully comply with regulations.

4. The district staff and advisors will undertake periodic reviews of all outstanding debt to determine if refunding opportunities exist for current debt obligations. Refunding will be considered (within federal and state tax law constraints) if and when there is a net economic benefit to the refunding, or if the refunding is essential in order to modernize covenants essential to operations and management. In general, current or crossover refundings will be considered if the economic benefit to the district provides a net present value savings of at least 3% of the debt being refunded, as required by state statute. Refundings with negative savings will not be considered unless there is a compelling public policy or legal objective to do so. Crossover refundings will have escrow funds invested in US treasury or US agency instruments with a strong credit rating.

Management of Bond Proceeds

When bonds are issued, the proceeds are deposited in various accounts, which may include a construction fund, debt service fund, and an escrow fund in a refunding. Monies allocated to these funds are invested until needed. The investment strategy for each fund will depend, in part, on federal and state statutes and regulations governing the types of instruments permitted to be used, the yield permitted for the fund, and the anticipated drawdown of bond proceeds. Investment of bond proceeds shall be in accordance with the Public Funds Investment Act (PFIA), the Public Funds Collateral Act, federal and state laws, and according to the cash flow schedule for capital projects. Interest income generated from bond proceeds will be transferred from the Capital Project Fund(s) to the Debt Service Fund for the purpose of paying principal and interest costs on current and future debt. The District will incur within six months of the date on which proceeds are issued, a binding obligation to a third party to expend at least five percent of the sale proceeds of the Bonds on a Bond Project. The District reasonably expects that work on or acquisition of the Project will proceed with due diligence to completion and that the proceeds of the Bonds will be expended on the Project within reasonable dispatch. The District reasonably expects that 85 percent of the sale Proceeds of the Bonds will have been expended on the Project prior to the date that is three years after the Issue Date. Any Sale Proceeds not expended prior to the date that is three years after the Issue Date, will be either invested at a yield not "materially higher" or make yield restriction payments, not less often than every fifth anniversary date of the delivery of the Bonds and within 60 days following the final maturity of the Bonds.

Management of Debt Service Fund

The District has a debt service fund and the proceeds from all taxes levied, assessed, and collected for and on account of bonds are to be deposited in such Fund. The District expects that taxes levied, assessed and collected for and on account of bonds will be sufficient each year to pay such debt service. The Debt Service Fund will be used primarily to achieve a proper matching of revenues and principal and interest payments on bonds within each bond year. Amounts held in the Debt Service Fund will be invested at an unrestricted yield because such amounts will be expended within 13 months of the date such amounts are received. The remaining portion of the debt service fund will be included in the calculation of arbitrage rebate. The District will call or defease bonds as required by the bond order.

Compliance

Compliance with Statutory Regulations – The District will comply with all statutory regulations in the issuance and structuring of debt obligations.

Federal Arbitrage and Rebate Compliance – The arbitrage rules are statutory rules set forth in the Internal Revenue Code of 1986, as interpreted from time to time by regulations promulgated by the U. S. Treasury Department and rulings by the Internal Revenue Service. Generally, the rules fall into two broad categories, investment rules and rebate rules. The investment rules limit the amount that can be earned by investing bond-related money. The rebate rules are designed to require the local governmental issuer to pay to the United States certain amounts of "arbitrage profit" that may be earned under the investment rules. Both sets of rules require compliance. The District will take all necessary steps to comply with the requirements that "rebate arbitrage earnings" on the investment of "gross proceeds" of bonds, within the meaning of section 148(f) of the Code be rebated to the federal government. Specifically, the District will

(a) maintain records regarding the investment of the "gross proceeds" of bonds as may be required to calculate such "rebatable arbitrage earnings" separately from records of amounts on deposit in the funds and accounts of the District which are allocable to other bond issues of the District,

(b) calculate at such intervals as may be required by applicable Regulations, the amount of "rebatable arbitrage earnings," earned from the investment of "gross proceeds" of bonds and

(c), pay, not less often than every fifth anniversary date of the delivery of bonds and within 60 days following the final maturity of bonds, or on such other dates required or permitted by applicable Regulations, all amounts required to be rebated to the federal government. The District will maintain a copy of any such calculations, and all documentation necessary to produce such calculations or necessary to establish qualification for an exemption from the need to produce such calculations, for at least six years after the close of the final calendar year during which any bond is outstanding. In addition to bond counsel, the District has contracted

with a third party arbitrage compliance specialist to insure that the District maintains compliance with arbitrage rules.
Issuers of municipal bonds with an aggregate of $10 million or more in outstanding debt are required by SEC Rule 15c2-12 as amended, to annually disclose certain operating data as well as audited financial statements. The required secondary market or ongoing disclosure documents are due to the state information depository (SID) and each nationally recognized municipal securities information repository (NRMSIR) within six months of the fiscal year end. For Anoka-Hennepin, the deadline is December 31st following the fiscal year end of June 30th. Accurate and timely filing of ongoing disclosure information is important as it relates to the liquidity of the District's bonds and insures that the District has the best results when accessing the capital markets.

Reporting to Board
The Superintendent or designee and/or the District's Financial Advisor will provide summary debt management updates to the Board at budget adoption and with every bond sale. The Debt Management Policy will be reviewed on an annual basis and updated as needed.

February 9, 2015