MT. DIABLO UNIFIED SCHOOL DISTRICT

DEBT MANAGEMENT POLICY

This document sets forth the **Debt Policy** of the Mt. Diablo Unified School District (the "District") as approved by the District Board of Trustees on ___________________. This Debt Policy fulfills the requirement of Government Code Section 8855(i) effective as of January 1, 2017. This Policy shall govern all debt obligations issued by the District and 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 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 issuances will be directed to the intended use upon completion of the issuance.

The District recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the District's sound financial position;
- Ensure the District has the flexibility to respond to changes in future service priorities, revenue inflows, and/or cost structures;
- Protect the District's short-term and long-term credit rating; and
- Protect both current and future taxpayers, or the general fund of the District, from being made responsible for the repayment of poorly structured and/or overly costly capital financings.

Furthermore, the District recognizes that a binding commitment to the full and timely repayment of all debt is an intrinsic requirement for entry and participation in the capital markets. As such, the parameters for issuing and managing debt set forth herein seek to provide guidance to decision makers concerning the timing and purposes for which debt may be issued, the types of debt that may be issued, the amount and structure of such debt, the preferred method of sale and internal control procedures.

1) PURPOSES FOR WHICH DEBT PROCEEDS MAY BE USED

a) The District may issue debt for one of three purposes:

   i) **New long-term debt** (amortized from three to 30+ years) to finance the construction, acquisition, and rehabilitation of District facilities, equipment, technology and sites;

   ii) Refunding long-term debt (amortized from three to 30+ years) to refinance previously issued debt of the District; or

   iii) **Short-term debt** to provide financing for:

      (1) the District's operational cash flows in order to maintain a steady and even cash balance (typically amortized over one year or less); or

      (2) bridge financing for the construction, acquisition and rehabilitation of District facilities, equipment, technology and sites which will be retired with the issuance of new long-term debt (amortized over one to five years).

b) New long-term debt financings shall be appropriate when the following conditions exist:

   i) The capital improvement and/or equipment to be financed is necessary to the District's ability to deliver services;

ii) The capital improvement and/or equipment to be financed will provide benefit over multiple years so that it is appropriate that the cost of the project be spread over such years; and

iii) Total debt does not result in an unreasonable burden to the District and its taxpayers.

c) New long-term debt financing will not generally be considered appropriate for any recurring purpose such as current operating and maintenance expenditures. The District will use long-term debt financings for the construction and/or acquisition of capital improvements or equipment, which may include appropriate expenditures required to integrate the improvements or equipment into the District's educational programs, when the following conditions exist:

i) The capital improvement and/or equipment to be financed is approved by the District Board;

ii) The useful life of the capital improvement to be financed will equal or exceed the final maturity of the financing;

iii) The useful life of the equipment to be financed will equal or exceed the final maturity of the financing or the portion of the financing allocated to the purchase of the equipment where both equipment and capital improvements are being financed in the same issue;

iv) There are revenues sufficient to service the debt, whether from future property taxes, or special taxes, user fees, an identified portion of revenues from the General Fund or other revenues specified and identified at the time of the sale of the debt; and

v) The financing complies with the appropriate provisions of the laws of the State of California including, but not limited to, the Education Code and Government Code of the State of California and federal laws determined to be applicable to the financing.

d) Refunding long-term debt financings shall be appropriate when such debt is used to refinance existing debt in order to produce a financial savings to the District or its taxpayers.

e) For short-term debt, financings shall be appropriate when the result will be a more even and orderly monthly cash flow balance.

f) The District may also find it beneficial to issue debt on behalf of external agencies such as nonprofit corporations or other entities for similar purposes in order to further the goals and objectives of District. In such cases, the District shall take reasonable steps to confirm the financial feasibility of the project and the financial solvency of any borrower and that the issuance of such debt is consistent with the policies set forth herein.

2) TYPES OF DEBT THAT MAY BE USED; NO DERIVATIVES

a) The following types of debt shall be allowable under this Debt Policy:

i) General Obligation Bonds

ii) Bond Anticipation Notes

iii) Certificates of Participation

iv) Lease Revenue Bonds

v) Tax and Revenue Anticipation Notes

vi) Special Tax Bonds

vii) Other Post Employment Benefit (OPEB) Bonds

b) The District may from time to time find that other forms of debt shall be beneficial to further its educational program or to strengthen its long-term financial condition. There shall be no prohibition to amending this Debt Policy to allow for other forms of debt so long as such forms of debt adhere to the provisions of this Debt Policy.

c) Debt shall be issued as fixed rate debt unless the District determines that a variable rate issue would be more beneficial to the District in a specific circumstance.

d) No derivatives shall be used in connection with any debt issued by the District.

3) RELATIONSHIP/INTEGRATION OF DEBT TO CAPITAL IMPROVEMENT PROGRAM AND BUDGET

a) The District shall strive to fund the upkeep of its infrastructure and facilities through the expenditure of annual operating revenues as available in order to protect the District's investment and to minimize future replacement and maintenance costs. The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

b) The District shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that facilities and equipment are available when needed for the District's educational program. The District shall strive to avoid the issuance of debt earlier than required to meet its program needs.

c) The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.

d) The District shall approve the use of debt to fund deferred maintenance projects when the funding of such projects complies with paragraph 1(b) and 1(c) of this Debt Policy.

e) The District shall seek to issue debt in a timely manner to avoid unplanned expenditures from its General Fund for capital improvements or equipment.

4) POLICY GOALS RELATED TO ISSUER'S PLANNING, GOALS AND OBJECTIVES

a) It shall be the policy goal of the District to protect taxpayers by utilizing conservative financing methods and techniques to obtain the lowest cost of debt.

b) To this end, it shall be the policy goal of the District to obtain the lowest cost of financing by selling its debt through the competitive bid process whenever possible.

c) The District recognizes that there shall be situations from time to time when the use of the competitive sale of its debt is not in the best interests of the District and its taxpayers. In such cases, the District shall offer its debt through either a negotiated sale with one or more underwriters or the direct placement with investors. In such cases, the policy goals of the District shall be as follows:

   i) In the case of a negotiated sale, the District shall seek multiple proposals from qualified underwriting firms. However, the District also recognizes that there may be unique situations when the sole source engagement of a particular underwriting firm shall be in the best interests of the District and its taxpayers.

   ii) In the case of a direct placement of debt with investors or lenders, the District shall seek multiple proposals from qualified investors.

d) The District will comply with the appropriate provisions of the laws of the State of California, including, but not limited to, the Education Code and Government Code as it pertains to the maximum term and levies for the debt issuance.

e) The District recognizes that the use of Capital Appreciation Bonds (CABs) is allowable under the laws of the State of California. However, it also recognizes that the use of CABs can result in excessive borrowing costs to future taxpayers. For this reason, it shall be the policy of the District to avoid the use of CABs whenever possible.

f) When refinancing debt, it shall be the policy goal of the District to seek savings from such refinancings that meet the following criteria whenever possible:

i) Minimum net present value debt service savings equal to or greater than 5.0% of the refunded principal amount.

ii) Present value debt service savings equal to or greater than 100% of any escrow fund negative arbitrage.

g) Notwithstanding paragraph 4(f), the District recognizes that there may be unique situations in which the above targets are not met but that the benefits from the refinancing are nevertheless in the best interest of the District and its taxpayers and justify proceeding with the refinancing. In such cases, a clear rationale for the deviation from this policy must be provided to the Board of Trustees prior to the approval of the resolution to proceed with the financing.

5) POLICY GOALS RELATED INTERNAL CONTROL PROCEDURES

a) The District will periodically review the requirements of and will remain in compliance with SEC Rule 15c2-12 by filing its annual financial statements and other financial and operating data, as required, for the benefit of its bondholders.

b) The District will follow a policy of full compliance with all federal tax law requirements for each debt issue as set forth in the tax certificate, including all expenditure rules and arbitrage rebate of the Internal Revenue Code of 1986, as amended and its adopted rules and regulations, and will engage the services of an expert consultant to perform arbitrage calculations for each debt issue subject to rebate on an annual basis.

c) Debt proceeds will be invested in accordance with the District's Investment Policy or as otherwise permitted in the ordinance or resolution authorizing the issuance of the debt.

WAIVERS OF DEBT POLICY

a) The District recognizes that there will be circumstances from time to time when strict adherence to a provision of this Debt Policy is not possible or not in the best interest of the District.

b) If the District staff has determined that a waiver of one or more provisions of this Debt Policy should be considered by the Board of Trustees, it will prepare an analysis for the Board of Trustees describing the rationale for the waiver and the impact of the waiver on the proposed debt issuance and on taxpayers, if applicable.

c) Upon a majority vote of the Board of Trustees, one or more provisions of this Debt Policy may be waived for a debt financing.

d) The failure of a debt financing to comply with one or more provisions of this Debt Policy shall in no way affect the validity of any debt issued by the District in accordance with applicable laws.