

## **DEBT MANAGEMENT POLICY**

The purpose of the Corporation's Debt Management Policy ("Debt Policy") is to establish and maintain well-defined guidelines around issuing new debt and considerations for outstanding debt to protect the fiscal stability of the Corporation. The Chief Operating Officer/Treasurer and the Board of School Trustees of Finance shall review this Debt Policy annually to determine if any adjustments are needed during the annual Board of Finance meeting.

### **Definitions:**

For purposes of this policy, the following definitions apply:

*Amended and Restated Post Issuance Compliance Procedures* shall mean the post-issuance procedures approved by the Board of School Trustees President, Board of School Trustees Secretary, and Chief Operating Officer/Treasurer on October 28, 2019.

*Corporation* shall mean the Mt. Vernon Community School Corporation.

*Corporation Debt* shall include short-term debt, long-term debt or any related school building corporation debt.

*Finance Team* shall mean the Superintendent, Chief Operating Officer/Treasurer, municipal advisor, and bond counsel.

*Board of School Trustees* shall mean the Mt. Vernon Board of School Trustees.

### **Objectives:**

In order to achieve its purpose, the Debt Policy has the following objectives:

- To guide the Corporation's Finance Team;
- To set forth operating principles minimizing the cost of government and financial risk;
- To maintain appropriate financial capacity for present and future needs; and
- To protect the Corporation's credit rating and provide for adequate resources to meet the obligations of the Corporation debt.

### **Guidelines for Debt:**

#### **Financing Team**

The Corporation employs various professionals for assistance with its debt issuance. These professionals include underwriters, trustees, consultants, municipal advisors and attorneys. For these professional services, the Corporation, through its Chief Operating

Officer/Treasurer, will evaluate its professionals as needed. When evaluating the professionals, the Corporation will consider general municipal financing expertise and qualifications, as well as the specific understanding of the Corporation's debt structure, finances, legal covenants, and familiarity with the Corporation.

### **Debt Limits**

The Corporation will observe state constitutional and statutory restrictions applicable to any debt issued by the Corporation. The Corporation shall not be subject to any additional local debt limitation, but as a policy goal, the Corporation will target a maximum non-exempt debt service levy tax rate (excludes debt approved by referendum) not to exceed \$0.7999 ("Maximum Targeted Rate"). The Corporation will monitor other debt measurements in conjunction with the issuance of additional bonds, including debt compared to gross assessed value and debt per capita.

The Corporation, with the assistance of, and oversight by the Finance Team, will work to not exceed the Maximum Targeted Rate, and any changes to this policy goal must be approved by the Board of School Trustees.

### **Refunding Bonds**

The Corporation may refund outstanding debt to achieve interest cost savings, remove or change burdensome bond covenants, adjust interest rates, release funds or a lien on building corporation property, restructure the stream of debt service payments and for any other reason deemed in the best interests of the Corporation, as determined by the Finance Team and the Board of School Trustees.

If the Corporation determines it will refund outstanding debt to achieve cost savings, then such cost savings should target savings or benefit to the Corporation of two to three percent (2-3%); however, smaller savings amounts may be evaluated for financings where there are significant present value savings and the interest rate environment is increasing.

### **Tax-Exempt or Taxable Debt**

Most debt will be issued as tax-exempt when permitted under federal law. To qualify as tax-exempt, the terms of the issuance and the use of issuance proceeds must comply with IRS regulations. Bond counsel will review the transaction and intended use of bond proceeds with the Finance Team and make a determination on the tax status of the bonds under consideration. The Corporation will take the necessary steps to maintain the tax-exempt status of the bonds after issuance (in accordance with its Tax Compliance Procedures, which are contained in bond transcripts for the applicable tax-exempt financing).

The Corporation may issue taxable debt for projects or uses that do not meet federal and/or state regulations for tax-exempt funding. In some instances, the use of tax-exempt debt might not be cost-effective, leading to the use of a taxable issuance as the lowest possible cost of funds. The Finance Team shall determine the most cost-effective way to

finance the project for each financing. The following items should be considered when the Corporation plans to issue taxable debt:

- Conventional call provisions in the taxable market can differ materially from those included in the tax-exempt market, and, if deemed appropriate, the Corporation will consider the economic benefits and costs of a make whole call or issuing non-callable bonds, both of which are common in the taxable bond market.
- Consideration should be given to whether the Corporation would benefit from using a blend of tax-exempt bonds and taxable bonds on a particular financings. Analysis should be completed prior to the bond sale regarding as to structure would produce the lowest cost for a given maturity when considering applicable legal options.

### **Debt Considerations:**

#### **Debt Structure**

All capital improvements financed through the issuance of debt will be financed for a period, in general, not to exceed the useful economic life of the improvements and in consideration of the ability of the Corporation.

Long-term debt, payable from ad valorem taxes, is limited to the maximum allowable time period under law. Call features should be evaluated based on market conditions and other considerations at the time debt is issued. The Corporation will evaluate call features with the Finance Team, with the advice of its municipal advisor, and will determine what is in the Corporation's best interest based upon an assessment of the municipal bond market at the time of the financing.

The Corporation only plans to issue fixed rate debt and will not issue variable rate debt. Should future market conditions change to make variable rate debt a more attractive option for the Corporation, then the Board of School Trustees will re-evaluate this portion of the Debt Policy at that time.

#### **Bond Ratings**

In connection with a bond financing, the Finance Team shall evaluate whether there is a benefit to have one or more ratings assigned to the bond issue. When making this assessment, the Finance Team shall determine whether the estimated cost of securing the rating or ratings is likely to result in an estimated reduction in the total interest cost. The estimated reduction in interest cost should exceed the estimated costs to secure the rating, including the cost of professional services needed to assist with the rating process.

Additionally, the Finance Team shall respond to any inquiries from the rating agencies after the debt has been issued to provide the rating agencies with accurate and timely information that is relevant to the financial position of the Corporation. The Chief Operating Officer/Treasurer, with the assistance of its municipal advisor, shall maintain a relationship with one or more rating agencies on a consistent basis to keep the rating

agencies informed of capital plans, upcoming debt issuance or other information that is pertinent to the Corporation's finances.

### **Management of Bond Proceeds**

When bonds are issued, the bond proceeds will be deposited into the accounts as set forth in the authorizing document for the bond financing, which may include the construction fund and an escrow fund for refunding's. Monies allocated to these funds may be 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 and will consider any tax covenants associated with tax-exempt debt. The funds will be invested in accordance with the Board of School Trustee's Investment Policy, F200 – Investment Income, and the Business Department, with assistance from its municipal advisor and bond counsel, shall determine the appropriate investments of bond proceeds for the applicable bond issue which will meet these state and federal requirements.

### **Post Issuance Compliance**

The Corporation will adhere to its Amended and Restated Post Issuance Compliance Procedures, which may be revised from time to time to ensure compliance with its continuing disclosure undertakings, including timely filings of required financial information, audits and reportable events on the Municipal Securities Rulemaking Board's EMMA website.

Mt. Vernon Community School Corporation

Adopted: [date]

Revised: [date]