Debt Management

The Cherokee County Board of Education recognizes the foundation of a well-managed debt program is a comprehensive debt policy. Because issuing debt commits the School District's future revenues, and may limit its flexibility to respond to changing service priorities, revenue inflows, and cost structures, adherence to a debt policy can serve to ensure maintenance of a sound financial position and that credit quality is protected.

This policy sets forth the parameters for issuing and managing debt and provides guidance regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt, method of sale that may be used and structural features that may be incorporated. The policy provides the structure and guidance through which the School District commits to full and timely repayment of all short- and long-term debt.

Georgia law provides the authorizations and requirements for debt issuances by Georgia School Districts. These specific statutory requirements are referenced throughout the debt policy, as applicable. However, these requirements can be affected by changes in Georgia law as well as legal precedence, court decisions and opinions issued by the Georgia Attorney General and State Auditor and will be reviewed and updated as necessary.

I. Conditions for Issuing Short-Term Debt

The School Board, as it deems necessary, may approve a resolution authorizing short-term borrowing of funds for school purposes. The School District will limit its short-term borrowing to cover projected cash flow shortages in the general fund through the issuance of Tax Anticipation Notes (TANS). Also, when the School District has an approved Special Purpose Local Optional Sales Tax (SPLOST), short-term borrowing may occur to allow the School District to begin building construction before the sales taxes that are funding the project are collected. (Georgia Constitution, Article IX, Section V, Paragraph V). An analysis will be conducted to determine the best funding alternative, which could include certain allowable interfund borrowing.

The aggregate amount of such borrowing outstanding at any one time will not exceed 75% of the total tax revenue collected in the prior year. The borrowing must be repaid by December 31 of each calendar year.

II. Conditions for Issuing Long-Term Debt

Debt financing for capital improvements and equipment generally may be appropriate when the following conditions exist:

- When one-time, non-continuous projects (those not requiring annual appropriations) are desired;

- When the School District determines that future users will receive the benefit of the capital improvement so that the cost of the improvement is appropriately paid by those future users;
- When the project is necessary to provide basic services to the County's residents and students; or,
- When total debt, including debt issued by overlapping governments (e.g., Cherokee County), does not constitute an unreasonable burden to the County's taxpayers.

III. Types of Long-Term Debt

Long-Term Debt may include, but not be limited, to the following:

- General Obligation Bonds;
- Intergovernmental Revenue Bonds;
- Certificates of Participation; and,
- Lease and Installment Purchase Debt.

IV. Limitation on Long-Term Debt Issuance

Georgia law limits the amount of general obligation debt that the School District may issue to 10% of the assessed value of all taxable property located within the boundaries of the School District (Georgia Constitution, Article 9, Section 5, Paragraph 1). The School District will endeavor to keep all outstanding obligations, general obligation debt and other obligations, below 2.0% of total value of all taxable property, but not to exceed 2.5%.

In order to not stress the annual operating budget, the ratio of annual debt service expenditures as a percent of annual operating expenditures will not exceed 12%; however, if SPLOST revenues are utilized, the ratio will not exceed 15%.

At such time as indebtedness is incurred, the School Board will provide for the assessment and collection of an annual tax sufficient to retire the principal and pay the related interest within 30 years from the date of issuance.

The amount of general long-term debt financing for capital assets will not exceed 100% of the fair market value of the assets nor should the average life of the debt exceed the average life of the asset(s).

Section 20-2-506(a)(4) of the Official Code of Georgia Annotated provides that lease and installment purchase contracts subject to annual appropriation must contain provisions limiting the total combined annual payments for such contracts and intergovernmental contracts in any calendar year to 7.5% of the total local revenue collected for maintenance and operation of the School District in the most recently completed fiscal year.

The School District agrees that, to the extent allowed by applicable law, so long as any of the Bonds are outstanding, it will not incur any additional debt or obligation of the School District payable from any State of Georgia appropriation to which the School District may be entitled unless the amount of any appropriation to which the School District has been entitled for a period of 12 consecutive months immediately preceding the adoption of the proceedings authorizing the issuance of such additional debt or obligation has been equal to at least twice the maximum annual debt service amount for any succeeding year on the Bonds and any other outstanding debt or obligation then outstanding payable from such appropriation and on the additional debt or obligation proposed to be issued.

V. Sound Financing of Debt

When the School District utilizes debt financing, the following activities will occur and be presented to the School Board at an official meeting to ensure the debt is structured appropriately:

- Analysis of the financial impact, both short-term and long-term, of issuing the debt to include the Debt-to-Total Value, Debt Service-to-Expenditures and Payout Ratio calculations;
- Conservatively projecting the revenue sources that the School District will use to repay the debt;
- Ensuring the term of any long-term debt the School District incurs will not exceed the expected useful life of the asset the debt financed;
- Maintaining a debt service coverage ratio (i.e., for sales tax revenue secured debt) that ensures the revenues intended for the repayment of the outstanding debt will be adequate to make the required debt service payments; and,
- Projecting the long-term millage rate impact for all existing and proposed general obligation bonds.

VI. Debt Features

The School District's bonds may be issued at a discount or premium, in order to market its bonds more effectively, achieve interest cost savings and/or meet other financing objectives. The School District's bonds may include redemption features which would allow the School District to refinance debt more easily when interest rates drop.

A decision to use the Intercept Program or bond insurance is purely an economic decision. The Intercept Program is free to all Georgia school systems so the decision as to whether to use the Program for the School District's General Obligation Bonds is based on the enhanced ratings under the Program compared to the School District's underlying ratings and investor reception of the enhanced rating at the time of bond pricing. For bond insurance, the analysis compares the present value of the interest savings to the cost of the insurance premium. Such insurance should be purchased when the premium cost is less than the projected interest savings.

The School District will use either variable or fixed-rate debt to finance its capital needs. If variable rate debt is used, the outstanding debt will be no more than 10% of the total debt outstanding for the School District.

VII. Refunding Debt

The School District will consider refunding outstanding debt when the net present value savings (net of issuance costs and any other cash contribution), as a percentage of the refunded bonds is at least 3%. In evaluating any potential refunding, the School District will also consider the current market conditions, the term to call date and, in the case of an advance refunding, future debt plans. Also, the School District may consider refunding outstanding debt (excluding general obligation bonds) when they wish to change the amortization schedule of the outstanding debt or to remove restrictive bond covenants on existing outstanding debt.

VIII. Debt Retirement

Generally, borrowings by the School District will be of a duration that does not exceed the economic life of the capital improvement that it finances and will be structured to minimize interest cost. The School District will also structure the repayment of debt to consider future financing needs and debt service requirements. The School District will design the repayment of debt so as to recapture rapidly its credit capacity for future use. The School District will target a payout ratio, defined as the amount of principal paid off in the next ten years divided by the total debt outstanding, of 60% of annual debt service payments.

IX. Full Disclosure

The School District will follow a policy of full disclosure and transparency in financial reporting and with the preparation of Preliminary Official Statements and Final Official Statements.

If the School District issues a direct bank placement it will voluntarily report this on the Electronic Municipal Market Access “EMMA” system.

X. Legal Compliance

When issuing debt, the School District will comply with all legal requirements, including continuing disclosure requirements, as applicable. This compliance includes adherence to local, state and federal legislation and bond covenants.

More specifically, the School District’s Chief Financial Officer is responsible for maintaining a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. This effort includes tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the School District's outstanding debt issues. Additionally, general financial reporting and certification requirements embodied in bond covenants are monitored to ensure compliance with all covenants.

The School District will comply with Amended SEC Rule 15c2-12 (the "Rule") by providing secondary market disclosure for all long-term debt obligations, which are subject to the Rule. As required, the School District will submit annual financial information to all nationally recognized municipal securities repositories pursuant to the Rule, on a timely basis.

XI. Credit Ratings

The Chief Financial Officer is responsible for maintaining relationships with the credit rating agencies that assign ratings to the School District's various debt obligations. This effort includes providing periodic updates on the School District's general financial condition along with coordinating meetings and presentations in conjunction with new debt issuance.

Credit ratings are the rating agencies' assessment of the School District's ability and willingness to repay debt on a timely basis. Credit ratings are an important indicator in the credit markets and can influence interest rates the School District must pay. Each of the rating agencies believes that debt management is a positive factor in evaluating issuers and assigning credit ratings. Therefore, implementing debt management practices will be viewed positively by the rating agencies and may influence the School District's credit rating and, ultimately, lower borrowing costs.

XII. Method of Sale

The School District will select a method of sale that is the most appropriate in light of financial, market, transaction-specific and issuer-related conditions. Based on information provided by the Financial Advisor, the Chief Financial Officer is authorized to determine the most advantageous process for the marketing and placement of the School District's debt. Methods of sale include, but are not limited to, competitive sales, negotiated sales, direct bank loans and lease/purchase agreements.

XIII. Using Financial Specialists

To strengthen its debt management strategies, the School District may employ outside financial specialists to assist it in developing a bond issuance strategy, preparing bond documents, and marketing bonds to investors.

XIV. Delegation and Authority

The School Board will delegate the responsibility for managing the School District's debt program to the Superintendent who may further delegate to appropriate staff members.

APPROVED: July 20, 2017

Cherokee County Board of Education