Debt Management Policy
North Mahaska Community School District
Approved: March 21, 2022

Introduction/Background

This policy establishes written guidelines to standardize the conditions and procedures for the issuance of debt which will minimize the North Mahaska Community School District's ("the District") debt service and issuance costs, and retain the highest practical credit rating. The objectives of this policy are to improve the quality of decisions, provide justification for the structure of debt issuance, maintain sound financial management practices, and demonstrate a commitment to long-term financial planning to effectively serve the constituents of the District. Compliance with a debt management policy signals to rating agencies and the capital markets that a government is well-managed and can be expected to meet its obligations in a timely manner.

This policy is for general use and exceptions to this Policy may be allowed under certain conditions. This policy may be adjusted at any time by the Board of Directors of the District.

DEBT LIMITS

Credit Ratings

The District seeks to maintain the highest possible credit ratings for all categories of short- and long-term debt that can be achieved without compromising the delivery of services and the achievement of adopted objectives. The District recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Nevertheless, the District is committed to ensuring that actions within their control are prudent.

Debt Limits

For General Obligation debt, the District's outstanding debt limit shall be no more than five percent (5%) of the actual value of property within the District's boundaries, as prescribed the State Constitution and statutory restrictions.

For Revenue debt, the District's goal is to provide adequate debt service coverage of at least 1.20 times the annual debt service costs.

In accordance with State law, the District may not act as a conduit issuer or issue municipal securities to raise capital for revenue-generating projects where the funds generated are used by a third party ("conduit borrower") to make payments to investors.

PURPOSES AND USES OF DEBT

Capital Planning

To enhance creditworthiness and prudent financial management, the District is committed to systematic capital planning, intergovernmental cooperation and coordination, and long-term financial planning.

Capital Financing

The District may issue long-term debt for capital projects as authorized by State statute, which include, but are not limited to, the costs of planning, design, land acquisition, buildings, permanent structures, attached fixtures or equipment, and movable pieces of equipment. Capitalized interest may be included in sizing any capital project debt issue. The types of debt instruments to be used by the District include:

- General Obligation Bonds
- General Obligation Capital Loan Notes
- Bond Anticipation Notes
- Revenue Anticipation Notes
- School Infrastructure Sales, Services and Use Tax Revenue Bonds
- Lease Purchase Agreements, including Certificates of Participation

Working Capital Financing

The District may issue debt for working capital for operations after cash flow analysis has determined that there is a mismatch between available cash and cash outflows. The District shall strive to repay working capital debt by the end of the fiscal year in which the debt was incurred. A Working Capital Reserve may be included in sizing any working capital debt issue.

Refundings

Periodic reviews of all outstanding debt will be undertaken to determine if refunding opportunities exist. Refunding will be considered (within federal tax law restraints) if and when there is a net economic benefit of the refunding or if the refunding is otherwise in the best interests of the District, such as to release restrictive bond covenants which affect the operations and management of the District.

Current refundings, which produce a new present value savings of less than three percent will be considered on a case by case basis taking into consideration bond covenants and general conditions. Refundings with negative savings will not be considered unless there is a compelling public policy objective for doing so.

DEBT STANDARDS AND STRUCTURE

Length of Debt

Debt will be structured for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users. Long-term debt will not be issued for periods exceeding the useful life or average useful lives of the project or projects to be financed. All debt issued will adhere to state and federal law regarding the length of time the debt may be outstanding.

Debt Structure

Debt will be structured to achieve the lowest possible net cost to the District given market conditions, the urgency of the capital project, the type of debt being issued, and the nature and type of repayment source. To the extent possible, the District will design the repayment of its overall debt to rapidly recapture its credit capacity for future use.

Generally, the District will only issue fixed-rate debt. In very limited circumstances, the District may issue variable rate debt, consistent with the limitations of State statute and upon a finding of the Board of Directors that the use of fixed rate debt is not in the best interest of the District and a statement of the reasons for the use of variable rate debt.

All debt may be structured using discount, par or premium coupons, and as serial or term bonds or notes, or any combination thereof, consistent with State statute. The District should utilize the coupon structure that produces the lowest True Interest Cost (TIC) taking into consideration the call option value of any callable maturities.

The District will strive to structure their debt in sinking fund installments for each debt issue that achieves, as nearly as practicable, level debt service within an issue or overall debt service within a particular classification of debt.

Derivatives (including, but not limited to, interest rate swaps, caps, collars, corridors, ceiling and floor agreements, forward agreements, float agreements, or other similar financing arrangements), zero-coupon or capital appreciation bonds are not allowed to be issued consistent with State law.

Decision Analysis to Issue Debt

Whenever the District is contemplating the issuance of debt, information will be developed concerning the following four categories commonly used by rating agencies assessing the District's credit worthiness, listed below.

Debt Analysis – Debt capacity analysis; purpose for which debt is proposed to be issued; debt structure; debt burden; debt history and trends; and adequacy of debt and capital planning.

Financial Analysis – Stability, diversity, and growth rates of tax or other revenue sources; trend in assessed valuation and collections; current budget trends; appraisal of past revenue and expenditure trends; history and long-term trends of revenues and expenditures; evidences of financial planning; adherence to GAAP; audit results; fund balance status and trends in operating and debt funds; financial monitoring systems and capabilities; and cash flow projections.

Governmental and Administrative Analysis – Government organization structure; location of financial responsibilities and degree of control; adequacy of basic service provision; intergovernmental cooperation/conflict and extent of duplication; and overall planning efforts.

Economic Analysis – Geographic and location advantages; population and demographic characteristics; wealth indicators; types of employment, industry and occupation; housing characteristics; new construction; evidences of industrial decline; and trend of the economy.

DEBT ISSUANCE

Credit Enhancement

Credit enhancements (i.e., bond insurance, etc.) may be used but only when the net debt service on the debt is reduced by more than the costs of the credit enhancement.

Costs and Fees

All costs and fees related to issuing the debt will be paid out of debt proceeds and allocated across all projects receiving proceeds of the debt issue.

Method of Sale

Generally, all District debt will be sold through a competitive bidding process. Bids will be awarded on a true interest cost basis (TIC) providing other bidding requirements are satisfied.

The District may sell debt using a negotiated process in extraordinary circumstances when the complexity of the issue requires specialized expertise, when the negotiated sale would result in substantial savings in time or money, or when market conditions of District credit are unusually volatile or uncertain.

Professional Service Providers

The District may retain external bond counsel for debt issues. All debt issued by the District will include a written opinion by bond counsel affirming that the District is authorized to issue the debt, stating that the District has met all State constitutional and statutory requirements necessary for issuance and determining the debt's federal income tax status. The bond counsel retained must have comprehensive municipal debt experience and a thorough understanding of Iowa law as it relates to the issuance of the particular debt.

The District may retain an independent financial advisor. The financial advisor will be responsible for structuring and preparing all offering documents for each debt issue. The financial advisor retained will have comprehensive municipal debt experience, experience with diverse financial structuring and pricing of municipal securities.

The Treasurer shall have the authority to periodically select other service providers (e.g., escrow agents, verification agents, trustees, arbitrage consultants, rebate specialist, etc.) as necessary to meet legal requirements and minimize net debt costs. These services can include debt restructuring services and security or escrow purchases.

Compensation for bond counsel, financial advisor and other service providers will be as economical as possible and consistent with industry standards for the desired qualification levels.

DEBT MANAGEMENT

Investment of Debt Proceeds

The District shall invest all proceeds received from the issuance of debt separate from the District's consolidated cash pool unless otherwise specified by the authorizing bond resolution or trust indenture. Investments will be consistent with those authorized by State law and the District's Investment Policy to maintain safety of principal and liquidity of the funds.

Arbitrage and Record Keeping Compliance

The Treasurer, or his/her designee, shall maintain a system of record keeping reporting and compliance procedures with respect to all federal tax requirements which are currently, or may become applicable through the lifetime of all tax-exempt or tax credit bonds.

Federal tax compliance, record-keeping reporting and compliance procedures shall include but not be limited to: 1) post-issuance compliance procedures (including proper use of proceeds, timely expenditure of proceeds, proper use of bond financed property, yield restriction and rebate, and timely return filing); 2) proper maintenance of records to support federal tax compliance; (3) investments and arbitrage compliance; 4) expenditures and assets; 5) private business use; and 6) designation of primary responsibilities for federal tax compliance of all bond financings.

Financial Disclosure

The District is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, other levels of government, and the general public to share comprehensible and accurate financial information. The District is dedicated to meeting secondary disclosure requirements on a timely and comprehensive basis, as promulgated by the Securities and Exchange Commission.

The Official Statements accompanying debt issues, Annual Audits, and Continuing Disclosure statements will meet the standards articulated by the Municipal Securities Rulemaking Board (MSRB), the Government Accounting Standards Board (GASB), the Securities and Exchange Commission (SEC), Generally Accepted Accounting Principles (GAAP) and the Internal Revenue Service (IRS). The Treasurer shall be responsible for ongoing debt disclosure as required by any Continuing Disclosure Certificate for any debt issue and shall maintain compliance with disclosure standards promulgated by state and federal regulatory bodies.