2011-12 Annual Debt Report

For the Period Ending June 30, 2012

Business Services

January 22, 2013

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TABLE OF CONTENTS

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Preface

The Assistant Superintendent of Business Services must submit a Debt Report to the Board of Education and Superintendent annually in accordance with the District's Debt Management Policy. The following list identifies the information to be included in the report:

Topic	Location in Report
• A listing of outstanding General Obligation Bond debt supported by voter-approved tax levies and a schedule of debt service requirements for this debt.	Section I.B. and Appendix 1
• A listing of authorized but unissued general obligation bond debt	Section I.B.
• A discussion of tax rates being paid by District taxpayers to service the District's General Obligation Bond Debt	Section I.D.
• A listing of authorized but unissued debt that the Assistant Superintendent of Business intends to sell during the current and subsequent budget year and the projected increase in debt service as a result of those sales	Section I.C. and II.B.
• A listing of outstanding Certificates of Participation, QZAB, and Lease Revenue debt supported by the General Fund and/or developer fees and a schedule of debt service requirements for this debt	Section II.A., III and Appendix 3
• A listing of authorized but unissued Certificates of Participation debt	Section II.B.
• A description of the market for the District's General Obligation Bonds and Certificates of Deposit	Section IV
• A discussion of the District's long-term credit ratings	Section V
• Identification of pertinent debt ratios, such as debt service to General Fund expenditures, debt to assessed valuation of property and debt per capita	Section VI
• A comparison of the District's debt ratios to those of other issuers	Section VI.B.

This report frequently uses the words "bonds" and "debt" interchangeably, even when the underlying obligation does not technically constitute "debt" under California's constitution. This conforms with market convention for the general use of the term "debt" and "debt service" as applied to a broad variety of instruments in the municipal market, regardless of their precise legal status. "Debt" excludes short-term obligations such as tax revenue anticipation notes (TRANs). The rating agencies and the investor community evaluate the District's debt position based on all of its outstanding debt whether or not such debt is repaid from taxpayer-approved levies, the General Fund or developer fee sources.

SECTION I: GENERAL OBLIGATION BOND DEBT

A. District's Bonded Debt Limitation and Assessed Valuation Growth

In accordance with Education Code 15106, the District's bonded debt limitation equals 2.5% of the value of taxable property (i.e., assessed valuation) in the District. For Fiscal Year 2011-12, total assessed valuation in the District was $8.2 billion resulting in a bonded debt limitation of $205 million. Table 1 below presents the District's maximum debt versus current outstanding debt. The difference is the "Legal Debt Margin". Chart 1, to the right shows that the Legal Debt Margin, the distance between the two lines, narrowed significantly in 2010-11, but is projected to improve and regain a positive position even if the District issues the authorized amounts from the 2012 Measure U General Obligation in 2015-16 and 2016-17.

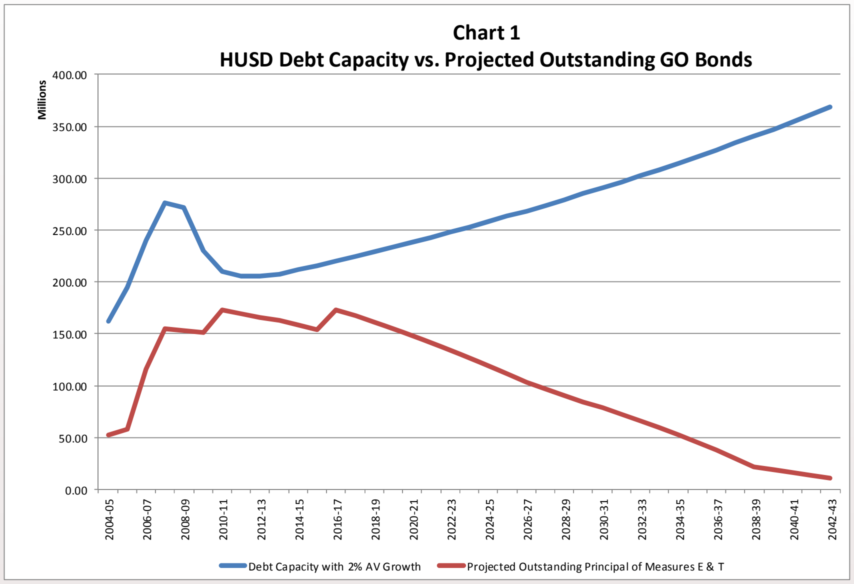


Chart 1
HUSD Debt Capacity vs. Projected Outstanding GO Bonds

In addition to the District debt issuance pattern, the Legal Debt Margin is greatly affected by assessed valuation growth within the District, which is depicted in Chart 2. Assessed valuation is assumed to have no growth in 2012-13, 1% increase the following year and thereafter grow at the maximum 2% rate allowed under Proposition 13 for existing property plus additional growth from new construction and the sale and exchange of property. The annual growth in assessed valuation averaged 6.06% over the last 10 years and had an average decline of 2.52% over the last five years. Based on this historical context the District may have assumed an annual growth rate of 6.06% or more, however assessed values decreased over 2.4% from 2010-11 with the continued downturn in property values. Overall, property values have decreased by nearly 25% since their high in 2007-08.

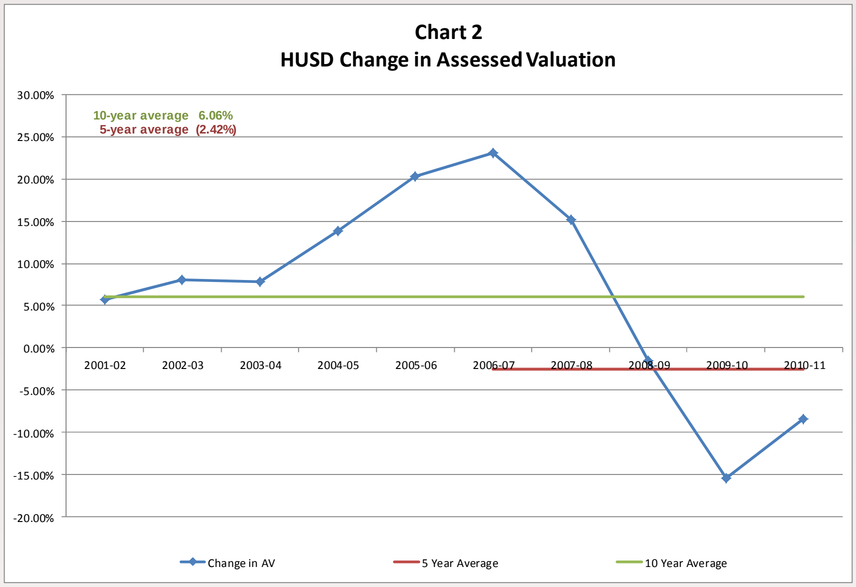


Chart 2
HUSD Change in Assessed Valuation

Table 1
Bonded Debt Limitation and Legal Debt Margin, Fiscal Year 2011-12

Total Assessed Valuation	$8,219,367,602
Bonded Debt Limitation (2.5% times Assessed Valuation)	210,289,523
Less: Outstanding General Obligation Bonds & BANS	(169,331,618)
Less: Amounts Available in Bond Interest and Redemption Fund (Fund 51) to Pay Principal (6/30/12)	(9,006,039)
Equals: Legal Debt Margin	***$ 31,951,866***

B. Bonds Outstanding and Bonds Authorized But Unissued

As of June 30, 2012, the District had a total of $172,620,000 in voter authorized General Obligation Bonds outstanding. Included in this total, are $25 million in bonds issued as Bond Anticipation Notes under the federal Quality School Construction Bond (QSCB) program in July 2010. A detailed list of the District's outstanding General Obligation Bonds is shown in Table 2. Debt service requirements and additional details related to the district's General Obligation Bonds can be found in Appendices 1 and 2.

Table 2

General Obligation Bond Issuance and True Interest Cost

(as of June 30, 2012)

The District had a total of $49 million of authorized but unissued General Obligation Bonds as of June 30, 2012. Another $25 million has been issued in the form of Bond Anticipation Notes (BANs). Table 3 presents overall highlights of the District's authorized but unissued bonds and Chart 3 in the next subsection depicts actual and projected issuance of bonds.

Bond Issue	Date of Issue	Principal Amount Issued	Outstanding Principal	Interest (%)
2002 GO Bonds - Series A	06/06/2002	$23,000,000	0	
2002 GO Bonds - Series B	06/04/2003	15,000,000	11,665,000	2.75%-5.50%
2002 GO Bonds - Series C	05/26/2004	10,000,000	8,245,000	4.00%-5.00%
2002 GO Bonds - Series D	05/18/2005	6,000,000	5,070,000	3.50%-5.00%
2002 GO Bonds - Series E	01/17/2006	6,000,000	5,305,000	4.00%-6.50%
2006 GO Bonds - Series A	03/01/2007	60,000,000	57,780,000	4.00%-5.75%
2006 GO Bonds - Series B	03/04/2008	40,000,000	38,250,000	4.50%-5.25%
2010 QSCB BAN (2006 GO)	07/22/2010	25,000,000	25,000,000	5.375%
2010 GO Refunding (2002-Series A)	06/28/2010	18,740,000	18,000,000	4.00%-4.50%
	Total	**$203,740,000**	**$169,315,000**	

Table 3

Authorized but Unissued General Obligation Bond as of June 30, 2012

	2002 Measure E	2006 Measure T
Voter Authorized Amount	$60,000,000	$149,000,000
Issued	60,000,000	100,000,000
Authorized But Unissued	$0	$49,000,000
Bond Anticipation Notes		25,000,000
Authorized but Unissued	$0	$24,000,000

C. Intended Issuances of Bonds

Intended issuances are based on actual spending patterns and expenditure projections prepared by the Facilities Department and are subject to change. The district determined it was unlikely it would be able to issue the remaining $49 million in outstanding bonds from the Measure T authorization for many years because of the decline experienced in assessed valuations. As result, the district chose to give voters the opportunity to reauthorize the $49 million in outstanding bonds in the November 2012 election. Voter approval of the reauthorization will allow the district to issue the bonds under a new cap limitation. $25 million of the new authorization will be used to repay the 2010 Bond Anticipation Notes (BANs) that were issued under the federal Qualified School Construction Bonds (QSCB) program by July 2015. It is not expected the district will issue any of the 2012 General Obligation Reauthorization Bonds for Measure U in the next two years.

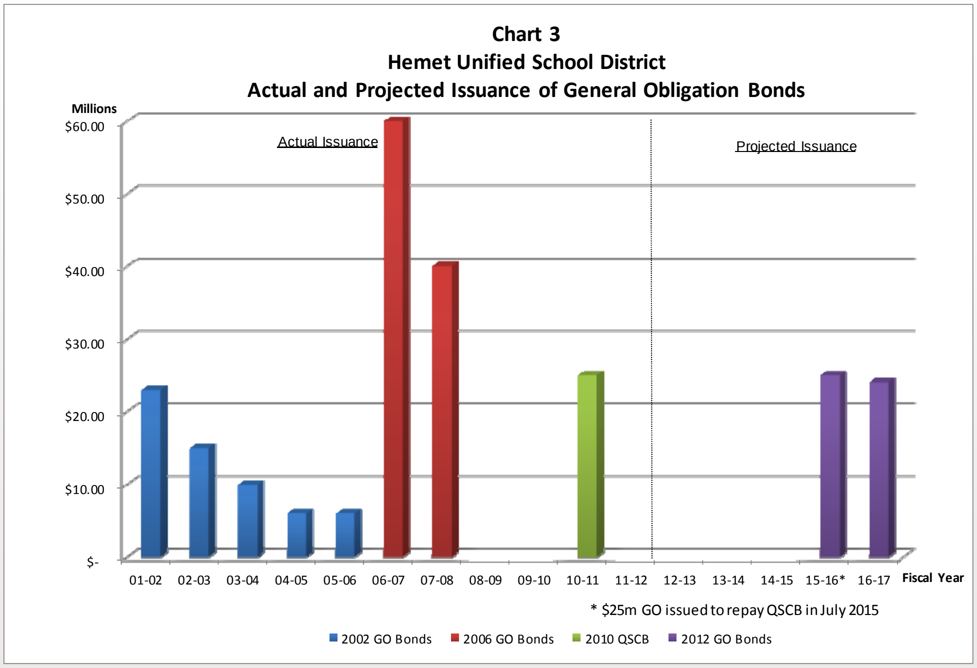


Table 4

Intended Issuances		
Bond Authorization and Authorization Year	**FY 2012-13**	**2013-14**
None		

Intended Issuances of Bonds

Fiscal Years 2012-13 and 2013-14

In July 2012, the Series B-D of the 2002 GO Bonds were refunded to take advantage of improved interest rates. The outstanding balances of the Series B-D bonds were paid in full and new debt services schedules were put in place for the 2012 refunded bonds.

In addition, voters approved Measure U, a reauthorization of the $49 million in outstanding 2006 GO bonds in the November 2012 election. This reauthorization decertifies the $49 million in remaining 2006 bonds and reauthorizes their issuance under a new cap on assessed property valuations.

A detailed schedule of the projected annual payments for current and anticipated bond issuances can be found in Appendix 2.

The Assistant Superintendent of Business regularly monitors market conditions for refunding opportunities that, pursuant to the Debt Management Policy, will produce at least a 3% net present value savings for each maturity of bonds refunded.

D. Tax Rates on Outstanding Bonds

Tax rates on outstanding bonds are calculated annually by the Riverside County Office of Education during the year-end closing process. The amount of outstanding bonds issued, bond debt scheduled payments, and assessed valuations are used to compute the tax rate. The tax rate is adjusted annually based on changes in amounts of outstanding bonds issued and assessed valuations. Per ballot language for the bonds, the targeted tax rate $100 (0.100) of assessed value for every $100 million in bonds issued. However, tax rates can exceed this limit if it is not sufficient to make the annual bond payments. Currently the tax rate is 0.12525 for $125,000,000, just slightly above the target of 0.1250. Table 5 below shows the current computed and levied tax rates as well as the rates for the prior five years.

Table 5
Annual Tax Rates on General Obligation Bond Debt Service

Fiscal Year	Outstanding Bond Indebtedness	AV	Computed Tax Rate	Levied Tax Rate
2006-07	$ 116,370,000	$ 9,587,606,302	.08165	.08165
2007-08	$ 165,880,000	$ 11,047,473,657	.10963	.10963
2008-09	$ 153,105,000	$ 10,879,573,631	.09476	.09476
2009-10	$ 150,455,000	$ 9,200,666,304	.11177	.11177
2010-11	$ 146,980,000	$ 8,423,580,909	.12536	.12536
2011-12	$ 143,320,000	$8,219,367,602	.12525	.12525

SECTION II : CERTIFICATES OF PARTICIPATION/QZAB/QSCB DEBT

A. COPs and QZAB Outstanding

Over the years, the District has issued Certificates of Participation (COPs) and Qualified Zone Academy Bonds (QZAB) to fund a variety of capital projects including construction of one high school, two middle school, several elementary schools, acquisition of portable classrooms, and construction and improvement of the District's Professional Development Academy, and Professional Development Service Center, along with numerous modernization and improvement projects. Debt service on COPs are paid from the Restricted General Fund with redevelopment pass-thru revenues the district receives from the City of Hemet.

In seeking to achieve the benefits of a diversified debt portfolio, the District issued the 2006 COPs as a variable/swap (weekly) rate as authorized by the District's Debt Policy which is included in this report as Appendix 4. The District's Policy states that variable rate COPs may be issued providing the total amount in that mode does not exceed 20% of the total principal of outstanding debt or $100 million, whichever is less. Tables 6 and 7 provide listings of outstanding COPs in fixed rate mode and variable rate mode, respectively. As of June 30, 2012, a total of $56,144,371 in fixed and variable rate COPs were outstanding. The debt service requirements on outstanding COPs can be found in Appendix 3.

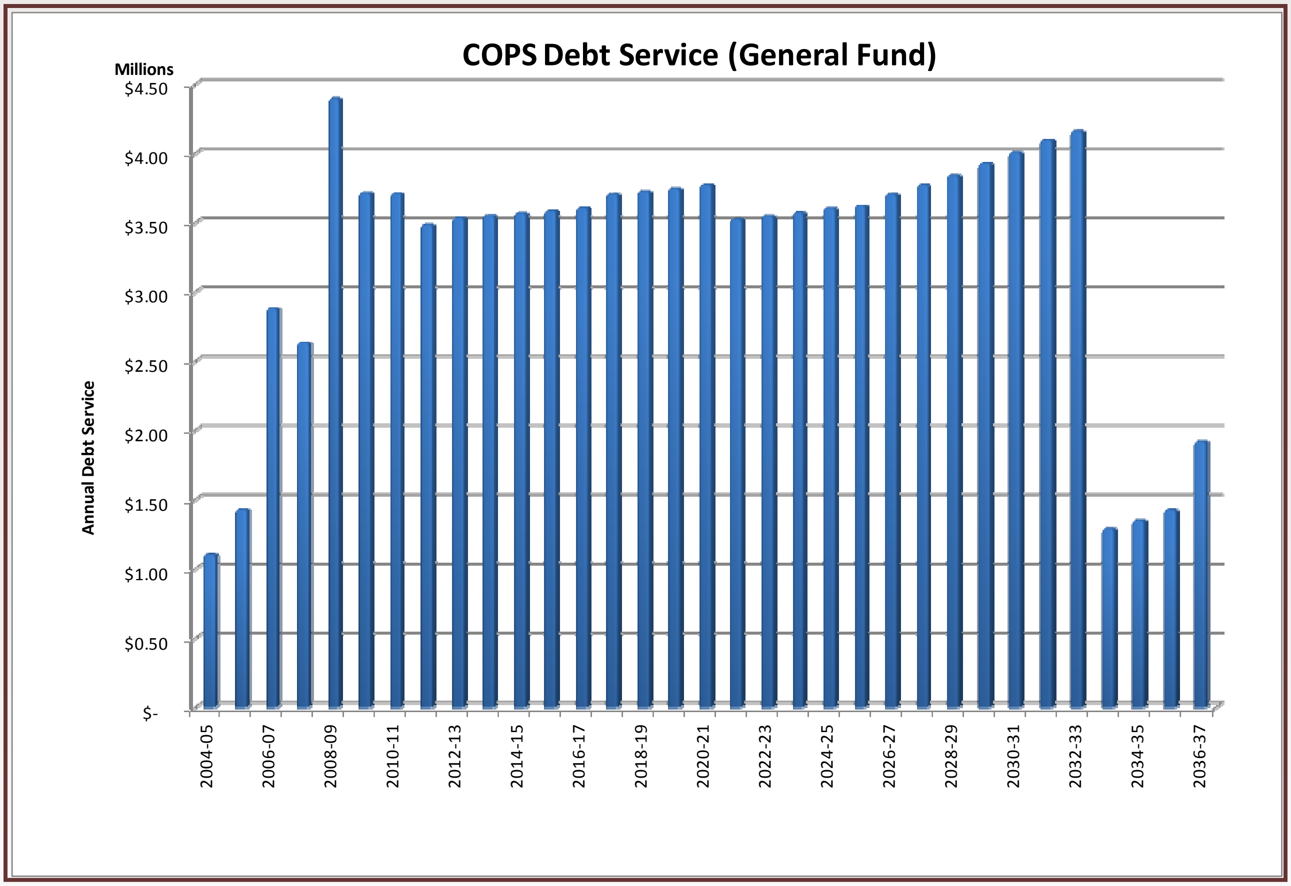
Table 6
Fixed-Rate Certificates of Participation and QZAB Issuance and True Interest Cost
(as of June 30, 2011)

Issue Description	Date of Issue	Principal Amount Issued	Outstanding Principal	Interest %
2004 COPs (refunding 1993 COPs, multiple projects)	10/14/2004	$23,425,000	$18,990,000	2.00%-4.625%
2005 QZAB COPs (Professional Development Academy)	12/13/2005	$5,000,000	$3,200,945	0.00%
2007 COPs (multiple projects)	11/21/2007	$4,610,000	$3,585,000	4.00%-5.00%
	Total	**$33,035,000**	**$26,804,371**	

Table 7
Variable/Swap-Rate Certificates of Participation Issuance
(as of June 30, 2011)

Issue Description	Date of Issue	Principal Amount Issued	Outstanding Principal
2006 COPs (PDA & PDSC)	6/13/2006	$29,445,000	$29,340,000
	Total	$29,445,000	$29,340,000

The amount of redevelopment funds necessary to pay COPs debt service rose significantly between 2004-05 and 2008-09 when additional debt service payments were made to refund the 2006 variable/swap rate COPs. Funds from redevelopment has fallen off in the past several years as assessed property values have declined in the region. In addition, recent legislation requires the closure of Redevelopment Agencies and the diversion of their assets to the state. RDA payments to local governments including school districts that were previously obligated for debt service will continue to be paid. Both redevelopment related receipts and debt service for current COPs are expected to remain flat through the remainder of their repayment periods until 203-34 when only payments for the 2006 and 2007 COPs issuances remain. Both the 2006 and 2007 COPs will be fully repaid in 2036-37 based on their current payment schedules.



** Chart reflects changes in debt payment schedule for 2006 COPS remarketed in July 2012.*

B. Intended Issuance of COPS and QZAB

In ongoing efforts to maintain the most beneficial interest rates and to maintain sufficient Letters of Credit to bondholders, the district is expected to remarket the 2006 COPS annually. A remarketing of the funds was done in July 2012.

SECTION III : REFUNDING LEASE REVENUE BONDS

Refunding Lease Revenue Bonds Outstanding

The District issued Refunding Lease Revenue Bonds in 2005 to refund the 1997 COPs that were originally issued for construction of the district's Nutrition Center. Refunding Lease Revenue Bonds are similar to COPs except that they are repaid with a revenue stream produced by the project. Originally $5,205,000 in bonds were issued, the principal balance outstanding as of June 30, 2012 was $3,980,000, The 2005 Refunding Lease Revenue bonds debt service requirements are paid from the District's Cafeteria Fund.

Lease Revenue Bonds Issuance
(as of June 30, 2011)

Issue Description	Date of Issue	Principal Amount Issued	Outstanding Principal	Interest %
2005 Lease Revenue	11/22/2005	$5,205,000	$3,980,000	3.40% - 4.50%
	Total	$5,205,000	$3,980,000	

SECTION IV: THE MARKET FOR THE DISTRICT'S DEBT

A. Municipal Bond Market

The District's bonds, COPs and tax revenue anticipation notes ("TRANs") are issued and traded in the United States' municipal bond market, a deep and highly liquid market. The major groups of investors in this market include insurance companies, mutual funds, hedge and arbitrage funds, investment banks, trust departments, investment advisors, individual investors, and money market funds. Each of these market participants may exhibit differing preferences for the structure and maturities of the bonds, COPs or TRANs that they may purchase.

The borrowing cost that the District must pay its investors is a function of market interest rates levels, anticipated Federal Reserve policy actions and, most importantly, the investment community's perception of and demand for the District's credit. Investors demand rates of return on their investments commensurate with their perception of the District's ability and willingness to repay its obligations as well as the District's overall financial, debt, and economic performance compared to other issuers. The investment community has historically viewed the District's bonds and COPs as high quality investment grade securities, owing to the District's strong financial position, a good local economy, good access to voter-approved tax levies, and an excellent debt service payment record.

Traditionally, the large numbers of investors residing in California and the State's progressive tax system have provided investors with incentives to purchase the District's bonds and COPs. During recent years, however, investor perception of California debt has weakened significantly due to the State's credit deterioration, investor concerns over the growing magnitude of the State's budget shortfalls and massive issuance of economic recovery bonds. The State's credit rating has continued to be downgraded by all credit rating agencies and ranks at or near the bottom compared to all other states. The State's borrowing costs have risen accordingly as did interest costs for issuers viewed as "agencies" of the State such as Hemet USD, even though district credit ratings remain very strong and well above those of the State.

In April of 2010, the Governing Board of Hemet Unified adopted Resolution 2059 which established a fund balance policy and set the district's minimum fund balance at a level equal to 5% or 2% above the statutory minimum 3% fund balance level for a district of its size. This action, along continued fiscal responsibility have benefitted the district through improved credit ratings and lower interest rates for borrowing.

B. Cost of The District's Fixed Rate and Variable Rate Debt

B.1. Fixed Rate Debt. All of the District's General Obligation Bond issues and all but one of its COPs issues carry fixed interest rates. Since reaching a cyclical high in 1999, fixed interest rates have fallen to historically low levels. The low rates helped the District achieve very low interest cost on its General Obligation Bonds when compared to industry benchmarks. The District's bonds have a term to maturity of 30 years.

B. 2. Variable/Swap Rate Debt. Current statutory provisions make it impractical for the District to issue variable rate General Obligation Bonds, as ancillary costs such as remarketing fees, auction agent fees, and dealer fees cannot be paid from voter approved tax levies. Thus, with the vast majority of the District's debt necessarily being issued as fixed rate bonds, the District has looked to its COPs issuance program to achieve debt portfolio diversification in the form of variable rate COPs. The District has issued one series of variable/ swap rate COPs, as summarized earlier in Table 7. The interest rate on this COPs varies with the movement of interest rates at the short end of the yield curve, which until recently has resulted in low interest expense due to low market interest rates. Because of volatility in the financial market, interest rates for borrowing are less than favorable and letters of credit to protect investors have become increasingly costly. It is likely the district will need to remarket the 2006 COPs annually in order to maintain favorable letters of credit and interest rates.

SECTION V: THE DISTRICT'S CREDIT RATINGS

A. Long-Term Credit Ratings on General Obligation Bonds and Certificates of Participation

Long-term credit ratings provided by a rating agency are in independent assessment of the relative credit risk associated with purchasing and holding a particular bond through its scheduled term of repayment. Long-term credit ratings serve as unbiased opinions of a borrower's financial strength and ability to repay its debt on a timely basis. Long-term credit ratings are one of the most important indicators of creditworthiness readily available to the investment community and have a direct impact on the borrowing rates paid by the District.

Credit Quality Tranches	
District's G.O Bond Ratings Highlighted in Blue	
District's COPs Ratings Highlighted in Green	
	S& P
Best Quality	AAA
	AA+
High Quality	AA
	AA-
	A+
Upper Medium Grade	A
	A-
	BBB+
Medium Grade	BBB
	BBB-
Below Investment Grade	BB+ and lower

As of June 2012, the District had a credit rating of "AA-" from Standard and Poor's for it's general obligation bonds. It's rating for Certificate's of Participation is several steps below at "A-". Normally, General Obligation Bond ratings are typically a level or two higher than ratings assigned for COPs because of the credit strength of *ad valorem* taxes that are pledged to repay General Obligation Bonds compared to repayment of the COPs from the district's general fund.

One critical component of a district's credit rating is its General Fund reserve balance. The district established a policy in April 2011 which sets its minimum unrestricted General Fund reserve at 5%. This policy has enhanced the district's ability to maintain a strong credit rating during unfavorable economic times.

In recent years, Hemet has been able to increase its reserve balance despite severe budget cuts. The district's General Fund reserve as of June 30, 2012 was equivalent to 20.1% of total expenditures.

The reserve balance is comprised of both restricted and unrestricted components. In the past, less than half of the general fund reserves were associated with the unrestricted general fund. However, with reclassification of many state restricted funds to unrestricted dollars in 2008-09, the unrestricted ending balance now makes up a larger percent of the total. For 2011-12, the district's unrestricted balance was equivalent to 17.7% of combined general fund expenditures. The average unrestricted balance for unified school districts in California is 9%.

B. Short-Term Credit Ratings on Tax and Revenue Anticipation Notes

The District has issued tax and revenue anticipation notes ("TRANs") annually since 1999-00 to fund short term cash flow deficits due to the timing of receipts of local property taxes and other revenues. The TRANs are issued to the District through the California School Cash Reserve Program sponsored by the California School Boards Association Finance Company in conjunction with US Bank and Piper Jaffray. In 2011-12, based on projected cash deficits the district was authorized for a total of $30 million in TRANs that was issued in two payments, a regular TRANs and a cross-year TRANs. The regular TRANs was issued in July 2011 for $23 million and was repaid in January 2012. The cross-year TRANs in the amount of $7 million issued in February 2012 has to cover deferrals of payments of state apportionments from February through June. The cross-year TRAN was repaid in July and August of 2012.

SECTION VI: DEBT RATIOS

A. Use of Debt Ratios

Pursuant to the District's Debt Management Policy set forth in Section 3.08, the district will monitor certain debt factors and debt burden ratios, as well as periodically measure the District's debt performance against those debt factors and debt burden ratios. Measuring the District's debt performance through the use of debt ratios provides a convenient way to compare the district to other borrowers. The most common debt ratios applied to school districts are:

- **Ratio of Outstanding Debt to Assessed Value.** The formula for this computation is contained in Section 15106 of the Education Code. The ratio is calculated for both "Direct Debt" (i.e., general obligation bonds) and "Combined Direct Debt" (both general obligation bonds and COPs), the latter commonly referred to a "Debt Burden" in the California Municipal Statistics Overlapping Debt Statement. In addition, the ratio of "Overall Debt Burden" includes the District Direct Debt plus the Direct Debt of issuers whose boundaries overlap those of the District. It is important to monitor the levels and growth of Direct Debt and Overall Direct Debt as they portray the debt burden borne by our taxpayers and serve as proxies for taxpayer capacity to take on additional debt in the future. The District must be careful not to overburden its taxpayers by issuing debt too quickly or too frequently, for example.
- **Ratio of Outstanding Debt per Capita.** The formula for this computation is Outstanding Debt divided by the population residing within the District's boundaries. Ratios are computed for both "Direct Debt Per Capita" and "Overall Debt Per Capita." It is important to monitor these ratios as they attempt to measure the degree to which debt is concentrated, i.e. whether it is spread across a large or small population.
- **Ratio of Annual Lease Debt Service to General Fund Expenditures.** The formula for this computation is annual lease debt service expenditures divided by General Funds (Unrestricted and Restricted) expenditures including interfund transfers as reported in the most recent annual financial report.
- **Proportion of Fixed-Rate and Variable Rate COPs Issues.** The Debt Management Policy requires the District to keep its variable rate exposure, to the extent not hedged or swapped to fixed rate, at or below 20% of principal outstanding COPs or $100 million, whichever is less. If variable rate debt is issued, the Assistant Superintendent of Business Services will periodically, but at least annually determine whether it is appropriate to convert the debt to fixed interest rates.

B. Hemet Unified School District's Compliance With Debt Management Policy, Debt Levels Compared to Other Districts

Table 9 provides a summary of the District's performance against policy benchmarks, targets and ceilings for debt paid from the General Fund. The District's Debt policy establishes a target debt factor limit for COPs debt service, including QZAB and Lease Revenue Bonds, paid from the combined general fund at 3.00% with a cap of 4.00%. The policy, first approved in January 2009, showed the target dollar amount at $6.2 million. That figure has been revised in this report to reflect the amount equivalent to 3% of total general fund expenditures and uses at June 30, 2012. For the fiscal year 2011-12, the percentage of COPs payments compared to total expenditures and uses of the combined general fund was 2.27% and actual payments were $4.0 million, below both the ceiling and target debt factors.

Table 9

2011-12 COP Debt Limits

Debt Factor	Target	Ceiling	Actual as of June 30, 2012 [1]	Over/(Under) Policy Ceiling
COP Gross Debt Service Limit (Percentage)	3.00%	4.00%	2.27%	(1.73%)
COP Gross Debt Service Cap (dollars)	$5,279,709	$7,039,611	$3,988,438	($3,051,173)

[1] Includes the annual base rental payments deposited in the sinking fund for the 2005 QZAB and the debt service payments for the 2005 Lease Revenue Bonds which are paid from the Cafeteria Fund (Fund 13).

Appendices

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APPENDIX 1
Hemet Unified School District
General Obligation Bonds, Semi-Annual Debt Service
(As of June 30, 2012)

Fiscal Year Ending June 30	Election 2002 Measure E Series B-E	Election 2006 Measure T Series A-B	2010 GO Bond Refunding 2002- Series A	Aggregate Semi-annual Debt Service	Aggregate Fiscal Year Total Debt Service
8/1/2011	1,827,262.52	4,024,470.00	1,117,565.63	6,969,298.15	
2/1/2012	639,475.02	2,231,295.00	362,765.63	3,233,535.65	10,202,833.80
8/1/2012	1,859,475.02	4,031,295.00	1,137,765.63	7,028,535.65	
2/1/2013	616,255.02	2,192,045.00	347,265.63	3,155,565.65	10,184,101.30
8/1/2013	1,886,255.02	4,097,045.00	1,167,265.63	7,150,565.65	
2/1/2014	593,373.77	2,150,520.00	330,865.63	3,074,759.40	10,225,325.05
8/1/2014	1,918,373.77	4,170,520.00	1,190,865.63	7,279,759.40	
2/1/2015	568,443.77	2,096,945.00	313,665.63	2,979,054.40	10,258,813.80
8/1/2015	1,953,443.77	3,481,945.00	1,213,665.63	6,649,054.40	
2/1/2016	542,030.02	2,798,991.88	295,665.63	3,636,687.53	10,285,741.93
8/1/2016	1,987,030.02	4,308,991.88	1,385,665.63	7,681,687.53	
2/1/2017	513,923.77	1,984,898.13	273,865.63	2,772,687.53	10,454,375.06
8/1/2017	2,028,923.77	4,369,898.13	1,408,865.63	7,807,687.53	
2/1/2018	483,798.77	1,931,916.88	254,003.13	2,669,718.78	10,477,406.31
8/1/2018	2,068,798.77	4,436,916.88	1,424,003.13	7,929,718.78	
2/1/2019	451,646.27	1,878,460.63	230,603.13	2,560,710.03	10,490,428.81
8/1/2019	2,101,646.27	4,498,460.63	1,455,603.13	8,055,710.03	
2/1/2020	417,605.65	1,821,335.63	206,103.13	2,445,044.41	10,500,754.44
8/1/2020	2,132,605.65	4,556,335.63	1,476,103.13	8,165,044.41	
2/1/2021	381,678.15	1,751,716.88	183,878.13	2,317,273.16	10,482,317.57
8/1/2021	2,186,678.15	4,606,716.88	1,503,878.13	8,297,273.16	
2/1/2022	343,060.03	1,679,029.38	157,478.13	2,179,567.54	10,476,840.70
8/1/2022	2,228,060.03	4,669,029.38	1,527,478.13	8,424,567.54	
2/1/2023	301,843.77	1,604,973.13	130,078.13	2,036,895.03	10,461,462.57
8/1/2023	2,276,843.77	4,749,973.13	1,555,078.13	8,581,895.03	
2/1/2024	258,034.39	1,524,885.63	101,578.13	1,884,498.15	10,466,393.18
8/1/2024	2,328,034.39	4,814,885.63	1,586,578.13	8,729,498.15	
2/1/2025	211,909.39	1,450,082.50	70,021.88	1,732,013.77	10,461,511.92
8/1/2025	2,381,909.39	4,890,082.50	1,615,021.88	8,887,013.77	
2/1/2026	163,546.89	1,374,267.50	36,225.00	1,574,039.39	10,461,053.16
8/1/2026	2,433,544.89	4,974,267.50	1,646,225.00	9,054,037.39	
2/1/2027	112,728.14	1,294,043.75		1,406,771.89	10,460,809.28
8/1/2027	2,492,728.14	5,069,043.75		7,561,771.89	
2/1/2028	59,345.64	1,208,387.50		1,267,733.14	8,829,505.03
8/1/2028	1,499,345.64	5,153,387.50		6,652,733.14	
2/1/2029	25,812.51	1,118,837.50		1,144,650.01	7,797,383.15
8/1/2029	800,812.51	5,253,837.50		6,054,650.01	
2/1/2030	8,859.38	1,024,931.25		1,033,790.63	7,088,440.64
8/1/2030	413,859.38	5,354,931.25		5,768,790.63	
2/1/2031	-	926,543.75		926,543.75	6,695,334.38
8/1/2031	-	5,466,543.75		5,466,543.75	
2/1/2032	-	821,093.75		821,093.75	6,287,637.50
8/1/2032	-	5,576,093.75		5,576,093.75	
2/1/2033	-	712,962.50		712,962.50	6,289,056.25
8/1/2033	-	5,657,962.50		5,657,962.50	
2/1/2034	-	595,465.63		595,465.63	6,253,428.13
8/1/2034	-	5,800,465.63		5,800,465.63	
2/1/2035	-	471,775.00		471,775.00	6,272,240.63
8/1/2035	-	5,891,775.00		5,891,775.00	
2/1/2036	-	342,887.50		342,887.50	6,234,662.50
8/1/2036	-	6,037,887.50		6,037,887.50	
2/1/2037	-	207,421.88		207,421.88	6,245,309.38
8/1/2037	-	6,182,421.88		6,182,421.88	
2/1/2038				-	6,182,421.88
8/1/2038				-	
2/1/2039				-	-
8/1/2039				-	
2/1/2040				-	-
8/1/2040				-	
2/1/2041				-	-
	$ 45,499,001.22	**$ 169,320,896.36**	**$ 25,705,690.77**	**$ 240,525,588.35**	**$ 240,525,588.35**

APPENDIX 2
Hemet Unified School District
Debt Service Requirements on Intended Sales
of Authorized but Unissued Bonds During
Fiscal Years 2012-13 and 2013-14

Fiscal Year Ending 30-Jun	FY 2012-13 GO Bond Issuance Debt Service	FY 2013-14 GO Bond Issuance Debt Service	Total All New Bonds Debt Service
2013	-	-	-
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017	-	-	-
2018	-	-	-
2019	-	-	-
2020	-	-	-
2021	-	-	-
2022	-	-	-
2023	-	-	-
2024	-	-	-
2025	-	-	-
2026	-	-	-
2027	-	-	-
2028	-	-	-
2029	-	-	-
2030	-	-	-
2031	-	-	-
2032	-	-	-
2033	-	-	-
2034	-	-	-
2035	-	-	-
2036	-	-	-
2037	-	-	-
			-
	$ -	**$ -**	**$ -**

APPENDIX 3
Hemet Unified School District
Certificates of Participation Lease Obligations
Gross Debt Service [1]
As of June 30, 2012

Fiscal Year Ending June 30	Restricted General Fund (Redevelopment) [2, 3]	2005 COPS - Cafeteria Fund	Total All COPs Debt Service[1]
2012	3,584,923.71	364,716.26	3,949,639.97
2013	3,552,508.75	368,066.26	3,920,575.01
2014	3,567,699.75	365,866.26	3,933,566.01
2015	3,599,336.71	368,435.00	3,967,771.71
2016	3,607,343.75	370,372.50	3,977,716.25
2017	3,711,865.29	366,597.50	4,078,462.79
2018	3,734,094.75	362,397.50	4,096,492.25
2019	3,752,014.29	367,762.50	4,119,776.79
2020	3,765,443.79	367,137.50	4,132,581.29
2021	3,533,392.79	365,762.50	3,899,155.29
2022	3,553,242.00	363,950.00	3,917,192.00
2023	3,575,186.54	366,700.00	3,941,886.54
2024	3,602,063.79	363,793.76	3,965,857.55
2025	3,628,432.96	370,450.00	3,998,882.96
2026	3,652,569.29	365,825.00	4,018,394.29
2027	3,742,594.25	365,750.00	4,108,344.25
2028	3,854,367.29	-	3,854,367.29
2029	4,512,318.25	-	4,512,318.25
2030	4,228,348.04	-	4,228,348.04
2031	4,306,418.13	-	4,306,418.13
2032	4,417,112.63	-	4,417,112.63
2033	1,349,902.34	-	1,349,902.34
2034	1,324,653.04		1,324,653.04
2035	1,386,961.50		1,386,961.50
2036	1,404,346.54		1,404,346.54
2037	1,027,612.50		1,027,612.50
	$ 89,589,158.66	**$ 6,229,588.80**	**$ 95,818,747.46**

[1] The district has assumed certain interest rates for the swap rate lease obligations included in the above table.
[2] Includes the annual base rental payments deposited into the sinking fund for the 2005 QZAB
[3] In the event that insufficient redevelopment revenue is available to pay the above lease obligations, the Unrestricted General Fund would need to cover the obligations

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Appendix 4
2011-12 Debt Policy

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HEMET UNIFIED SCHOOL DISTRICT

DEBT MANAGEMENT POLICY 2012-13

Prepared by:

Business Services

Board Approved:
January 22, 2013

Introduction

The intent and purpose of having a Debt Management Policy is to make sure the Governing Board and the public are aware of the fiscal issues related to public finance borrowing. The policies set forth in this Debt Management Policy (the "Policy") have been developed to provide guidelines for the issuance of general obligation bonds, certificates of participation ("COPs") and other forms of indebtedness by the Hemet Unified School District. While the issuance of debt can be an appropriate method of financing capital projects, careful and consistent monitoring of such debt issuance is required to preserve the District's credit strength and budget and financial flexibility. These guidelines will serve the District in determining the appropriate uses for debt financing and debt structures as well as establishing prudent debt management goals.

The District's Debt Management Policy was first adopted on January 22, 2008. Section 2.04 requires the policy to be reviewed and updated annually and submitted to the Governing Board for approval. The Debt Management Policy being presented for 2013 contains some small revisions to the Policy originally presented and approved in 2008. Staff is recommending the board review and approve the 2013 Debt Management Policy guidelines for the issuance of various types of debt instruments, the measurement of the District's debt performance, the selection of financing team members and communication with municipal market participants such as rating agencies, bond insures, credit banks and investors.

Background

In 1993 the District issued a COP Refunding that was intended to be funded entirely with annual revenues received from the City of Hemet Redevelopment Agency. The District's redevelopment pass-through agreement provides annual receipts from a portion of the District's property tax revenue restricted for capital facilities funding only. Beginning in 1994, assessed valuation dropped providing a shortfall in revenues forcing the District to encroach on the General Fund to make debt service payments until 1997. Since 1997, no Unrestricted General Funds have been expended on COP debt service payments.

The experience of the 1993 COPs is an important lesson on the need for careful analysis and conservative projections and why it is necessary to maintain reserves and contingency provisions.

The District from that point forward has done an excellent job in management of debt and is compliant with all laws including preparing timely disclosure reports and arbitrage calculation reports. During the District's issuance of the 2007 COPs, Standard and Poor's Corporation (S&P) noted that the District did not have a Debt Management Policy. Staff surveyed districts in Riverside County (County) and discovered that there was no district in the County with a Debt Management Policy. To help ensure and possibly improve the District's creditworthiness, an established policy of managing the

District's debt is essential. Staff has developed the Debt Management Policy as hereby presented based on the policy of the Los Angeles Unified School District but with changes that reflect both the size and demographics of the District.

The District's general obligation bonds, Measure E (2002) and Measure T (2006) obtained an 'A-' rating during early years and an 'AA-' rating for its 2012 Measure U GO Bond reauthorization. These high credit ratings reduce the interest costs paid by the District on the amounts borrowed. Lower interest costs result in lower tax rates paid by the District's taxpayers and a reduced burden on the General Fund. These debt management policies are intended to maintain the District's high ratings so that access to borrowed funds is provided at the lowest possible interest rates. Traditionally, these policies are intended to set forth selection criteria for certain financial consultants and attorneys which will ensure a fair and open selection process, provide opportunities for all firms, including small business enterprises, to participate in District contracts, and result in the selection of the best qualified advisors.

The District faces continuing capital infrastructure and cash requirements. In particular, the District is presently engaged in building new schools and modernizing schools with Facilities Improvement Program to be completed over the next several years. The costs of these requirements will be met, in large part, through the issuance of various types of debt instruments and other long-term financial obligations. Under voter approved bond Measure E in 2002, Measure T in 2006 and Measure U in 2012, the District was authorized to issue a combined $209 million in general obligation bonds for its Facilities Improvement Program and other capital and General Fund relief projects. Consequently, the District needs to anticipate increases in historical levels of such debt and other obligations, some of which may be repaid from the District's General Fund. With these increases, the effects of decisions regarding type of issue, method of sale, and payment structure become ever more critical to the District's fiscal health. To this end, the Board of Education of the District (the "Board") recognizes this Policy to be financially prudent and in the District's best economic interest.

Article I. Purpose and Goals

- The purpose of the Policy is to provide a functional tool for debt management and capital planning, as well as to enhance the District's ability to manage its debt and lease financings in a conservative and prudent manner. In following this Policy, the District shall pursue the following goals:

- The District shall strive to fund capital improvements from referendum-approved bond issues to preserve the availability of its General Funds for District operating purposes and other purposes that cannot be funded by such bond issues.

- The District shall endeavor to attain the best possible credit rating for each debt issue (with or without bond insurance) in order to reduce interest costs, within the context of preserving financial flexibility and meeting capital funding requirements.

- The District shall take all practical precautions and proactive measures to avoid any financial decision which will negatively impact current credit ratings on existing or future debt issues.

- The District shall remain mindful of debt limits in relation to assessed value growth within the school district and the tax burden needed to meet long-term capital requirements.

- The District shall consider market conditions and District cash flows when timing the issuance of debt.

- The District shall determine the amortization (maturity) schedule which will best fit with the overall debt structure of the District at the time the new debt is issued.

- The District shall give consideration to matching the term of the issue to the useful lives of assets whenever practicable, while considering repair and replacement costs of those assets to be incurred in future years as an offset to the useful lives, and the related length of time in the payout structure.

- The District shall, when planning for the issuance of new debt, consider the impact of such new debt on overlapping debt and the financing plans of local, state and other governments which overlap with the District.

- The District shall, when issuing debt, assess financial alternatives to include new and innovative financing approaches, including whenever feasible categorical grants, revolving loans or other State/federal aid, so as to minimize the encroachment on the District's General Fund.

The District shall, when planning for the sizing and timing of debt issuance, consider its liability to expend the funds obtained in an efficient and economical manner.

The key financial management tools and goals that are intrinsic to the Policy include:

A. Fund Balance Policy: The District recognizes the importance of emergency reserves that can provide a financial cushion in years of poor revenue receipts. Recommend a Reserve Fund Policy be developed and implemented for adoption by the Board.

B. Capital Financing Plan: The Office of the Assistant Superintendent, Business Services will prepare a five (5) year Capital Financing Plan in conjunction with the capital budget. The Plan will detail the sources of financing for all facilities in the capital budget, establish funding priorities and review the impact of all borrowings on the District's long-term debt affordability ratios. The Plan will consider all potential sources of financing, including non-debt options and ensure that these financing sources are in accordance with the goals of this policy. The Office of the Assistant Superintendent, Business Services will review and revise the Plan annually. See Articles III and IV herein.

C. Annual Debt Report: The Office of the Assistant Superintendent, Business Services will annually prepare for and submit to the Superintendent and the Board a Debt Report which reviews the outstanding debt of the District as further described under Section 4.02 herein.

Article II. Authorization

Section 2.01 **Authority and Purposes of the Issuance of Debt**

The laws of the State of California authorize the issuance of debt by the District, and confer upon it the power and authority to make lease payments, contract debt, borrow money, and issue bonds for public improvement projects. Under these provisions, the District may contract debt to pay for the cost of acquiring, constructing, reconstructing**,** rehabilitating, replacing, improving, extending, enlarging, and equipping such projects, or to refund existing debt or to provide for cash flow needs**.**

Legislation effective January 1, 2009 changed some reporting requirements for issuing non-voter approved debt, such as COPs that are secured by real property. AB2197 requires districts to notify the county superintendent of schools and the county auditor not less than 30 days prior to approving the issuance of such debt. Pursuant to this legislation the District will submit to the County Superintendent of Schools information regarding any new debt, including the type of debt to be issued, projects to be financed, funding sources for repayment along with a contingency plan should the original funding source not materialize, as well as multi-year budget projections for each fund pledged for the debt repayment.

Section 2.02 **Common Types of Debt Issuance**

A. Short-Term: The District may issue fixed-rate and/or variable rate short-term debt which may include tax and revenue anticipation notes ("TRANs") when such instruments allow the District to meet its cash flow requirements. However, the District shall generally manage its cash position in a manner so that internally generated cash flow is sufficient to meet expenditures. The District may also issue commercial paper in the context of providing funding of shorter term acquisitions, such as equipment, or interim funding for capital costs that will ultimately be replaced with COPs. The District may also participate in an annual pooled financing of delinquent property taxes known as the Teeter Program to the extent that the Assistant Superintendent, Business Services determines such financing produces significant benefit to the District.

B. Long-Term: Debt issues may be used to finance essential capital facilities, projects and certain equipment where it is appropriate to spread the cost of the projects over more than one budget year. In so doing, the District recognizes that future taxpayers who will benefit from the investment will pay a share of its cost. Projects which are not appropriate for spreading costs over future years will not be debt financed. Long-term debt will, under no circumstances, be used to fund District operations. The District may issue long-term debt which may include, but is not limited to general obligation bonds ("G. O. Bonds"), including general obligation bonds issued pursuant to Proposition 39. The District may also enter into long-term leases and/or COPs for public facilities, property, and equipment.

C. Equipment Financing: Lease obligations are a routine and appropriate means of financing capital equipment. However, lease obligations also have the greatest impact on debt capacity and budget flexibility. Therefore, efforts will be made to fund capital equipment with pay-as-you-go financing where feasible, and only the highest priority equipment purchases will be funded with lease obligations. With the exception of leases undertaken through the District's standard procurement process, all equipment with a useful life of less than six years shall be funded on a pay-as-you-go basis unless the following conditions are met:

i. In connection with the proposed District budget, the Superintendent makes the finding that there is an "economic necessity" based on a significant economic downturn, earthquake or other natural disaster and there are no other viable sources of funds to fund the equipment purchase.
ii. The Board concurs with the Superintendent's finding in the adoption of the budget.
iii. The various debt ceilings in Section 3.08 of this Policy are not exceeded.

D. Lease Financing of Real Property: Lease financing for facilities is appropriate for facilities for which there is insufficient time to obtain voter approval or in instances where obtaining voter approval is not feasible. Such financings will be structured in accordance with Section 3.01 of the Policy. If and when voter approved debt proceeds become available subsequently, the District will use such proceeds to take out the financing where appropriate.

E. Use of General Obligation Bonds: Voter-approved general obligation bonds typically provide the lowest cost of borrowing. General obligation bond debt to the extent authorized for the District requires either two-thirds approval of the voters (in the case of traditional general obligation bonds) or 55% approval of the voters (in the case of general obligation bonds issued pursuant to Proposition 39). In recognition of the difficulty in achieving the required two-thirds voter-approval or 55% voter approval, as the case may be, to issue general obligation bonds, such bonds will be generally limited to facilities and projects that provide wide public benefit and for which broad public support has been generated.

F. Use of Asset Transfer COPs: The District will restrict the use of an "asset transfer" COPs to finance emergency capital needs for which there are no other viable financing options. Additionally, asset transfer COPs may be used if significant savings in financing costs can be generated compared to other financing alternatives.

G. Pay-As-You-Go Financing: Except in extenuating circumstances, the District will fund routine maintenance projects in each year's capital program with pay-as-you-go financing. Extenuating circumstances may include unusually large and non-recurring budgeted expenditures, or when depleted reserves and weak revenues would require the delay or deletion of necessary capital projects.

Pursuant to the State law, the District can issue either fixed-rate, variable rate or capital appreciation debt, depending on the applicable law**.**

Section 2.03 **State Law**

Section 18 of Article XVI of the State Constitution contains the basic "debt limitation" formula applicable to the District.

Sections 1(b)(2) and 1(b)(3) of Article XIII A of the State Constitution allow the District to issue traditional general obligation bonds and Proposition 39 bonds, respectively. The statutory authority for issuing general obligation bonds is contained in Section 15000 *et seq.* of the Education Code. Additional provisions applicable only to Proposition 39 general obligation bonds are contained in Section 15264 *et seq.* of the Education Code. An alternative procedure for issuing general obligation bonds is also available in Section 53506 *et seq.* of the Government Code.

The statutory authority for issuing TRANs is contained in Section 53850 *et seq.* of the Government Code. Authority for lease financings is found in Section 17455 *et seq.* of the Education Code and additional authority is contained in Sections 17400 *et seq.*, 17430 *et seq.* and 17450 *et seq.* of the Education Code. The District may also issue Mello-Roos bonds pursuant to Section 53311 *et seq.* of the Government Code.

Section 2.04 **Annual Review**

The Policy shall be reviewed and updated annually and presented to the Board for approval as necessary. The Assistant Superintendent, Business Services is the designated administrator of the Policy and has overall responsibility, with the Board's approval, for decisions related to the structuring of all District debt issues. The Assistant Superintendent of Business Services may delegate the day-to-day responsibility for managing the District's debt and lease financings. The Board is the obligated issuer of all District debt and awards all purchase contracts for GO Bonds, COPs, TRANs and any other debt issuances**.**

Article III Structural Features, Legal and Credit Concerns

Section 3.01 **Structure of Debt Issues**

A. Maturity of Debt: The duration of a debt issue shall be consistent, to the extent possible, with the economic or useful life of the improvement or asset that the issue is financing. The final maturity of the debt shall be equal to or less than the useful life of the assets being financed, and the average life of the financing shall not exceed 120% of the average life of the assets being financed.

i. General Obligation Bonds: The final maturity of General Obligation bonds will be limited to the shorter of the average useful life of the asset financed or 25 years when such bonds are issued pursuant to the Education Code. General Obligation bonds may be structured with a term to maturity no longer than 40 years if issued pursuant to the Government Code; however, the selected term to maturity would have to be appropriate relative to the average useful lives of the assets financed. GO Bond issues will generally be sized to the amount reasonably expected to be required for two year's commitments.

ii. Lease-Purchase Obligations: The final maturity of equipment obligations will be limited to the average useful life of the equipment to be financed. The final maturity of real property obligations will be determined by the size of the financing, 15 years for small issues, 20 years for large issues and 30 years for exceptional projects.

iii. Community Facilities District Obligations and Revenue Bonds: These obligations, although repaid through additional taxes levied on a discrete group of taxpayers or from pledged developer fees and/or redevelopment funds, constitute overlapping indebtedness of the District and have an impact on the overall level of debt affordability. The District will develop separate guidelines for the issuance of such obligations as the need arises.

B. Debt Service Structure: The District shall design the financing schedule and repayment of debt so as to take best advantage of market conditions, provide flexibility, and, as practical, to recapture or maximize its credit for future use. Annual debt service payments will generally be amortized on a level basis per component financed; however, slower principal amortization may occur where permissible to meet debt repayment goals.

C. Capitalized Interest: Unless required for structuring purposes, the District will avoid the use of capitalized interest in order to avoid unnecessarily increasing the bond size and interest expense. Certain types of financings such as COPs may require that interest on the debt be paid from capitalized interest until the District has use and possession of the underlying project. However, the District may pledge assets as collateral for the issue in order to eliminate the need for capitalized interest.

D. Call Provisions: The Assistant Superintendent, Business Services, based upon analysis from the financial advisors of the economics of callable versus non-callable features, shall set forth call provisions for each issue.

Section 3.02 **Sale of Securities**

There are three methods of sale: competitive, negotiated, and private placement. All three methods of sale shall be considered for all issuance of debt to the extent allowed by law, as each method has the potential to achieve the lowest financing cost given the right conditions. Any award through negotiation shall be subject to approval by the District, generally the Assistant Superintendent, Business Services or other person designated by the Assistant Superintendent, to ensure that interest costs are in accordance with comparable market interest rates. When a competitive bidding process is deemed the most advantageous method of sale for the District, award will be based upon, among other factors, the lowest offered True Interest Cost ("TIC"). While not used as frequently as negotiated or competitive sale methods, a private placement sale would be appropriate when the financing can or must be structured for a single or limited number of purchasers.

Section 3.03 **Markets**

The District shall consider products and conditions in both domestic and international capital markets in meeting the District's financing needs. When practical in its financing program, the District shall consider local and regional markets as well as retail and institutional investors.

Section 3.04 **Credit Enhancements**

The District may enter into credit enhancement agreements such as municipal bond insurance and letters of credit with commercial banks, municipal bond insurance companies, or other financial entities when their use is judged to lower borrowing costs, eliminate restrictive covenants, or have a net economic benefit to the issuance. The District shall use a competitive process to select providers of such products to the extent applicable.

The District may also undertake hedging strategies in connection with its debt issues. The Assistant Superintendent, Business Services will develop an appropriate policy regarding interest rate swaps, interest rate caps and collars, rate locks and other derivatives for approval by the Board. Such policy, if approved, will be integrated into this Policy.

Section 3.05 **Impact on Operating Budget**

When considering any debt issuance, the potential impact of debt service and additional operating costs induced by new projects on the operating budget of the District, both short and long-term, will be evaluated. The ratio of annual debt service to General Fund expenditures is one method. The cost of debt issued for major capital repairs or replacements should be judged against the potential cost of delaying such repairs.

Section 3.06 **Debt Limitation**

Section 15106 of the Education Code limits the District's total outstanding debt (i.e., the principal portion only) to 2.5% of the assessed valuation of the taxable property of the District**.** TRANs and lease payment obligations in support of COPs generally do not count against this limit except as provided in Section 17422 of the Education Code**.** Limitation on TRANs is based on calculated cash deficit.

Section 3.07 **Debt Issued to Finance Operating Costs**

The District cannot finance general operating costs from debt having maturities greater than thirteen months. However, the District may deem it necessary to finance cash flow requirements under certain conditions. Such cash flow borrowing must be payable from taxes, income, revenue, cash receipts and other moneys attributable to the fiscal year in which the debt is issued. General operating costs include, but may not be limited to, those items normally funded in the District**'**s annual operating budget and having a useful life of less than one year.

Section 3.08 **Debt Burden Ratios and Debt Affordability Criteria**

A. Debt Burden Ratios: The following debt burden ratios should be considered in developing debt issuance plans:

- Ratio of Outstanding Debt to Assessed Value. The formula for this computation is contained in Section 15106 of the Education Code. The ratio shall be calculated for both "Direct Debt (G.O.s)"and "Combined Direct Debt (G.O.s and COPs) or Overall Debt Burden" typically contained in the Overlapping Debt Statement prepared by California Municipal Statistics.

- Ratio of Outstanding Debt Per Capita. The formula for this computation is Outstanding Debt divided by the population residing within the District, based upon the most recent estimates as determined by the United States Bureau of the Census**.** Ratios shall be computed for both "Direct Debt Per Capita" and "Overall Debt Per Capita".

- Ratio of Annual Lease Debt Service to General Funds Expenditures. The formula for this computation is annual lease debt service expenditures divided by General Funds (i.e., General and Debt Service Funds) expenditures (excluding interfund transfers) as reported in the most recent CAFR.

- Proportion of Fixed-Rate and Variable-Rate COPs Issues. The District can benefit from some variable rate exposure in its portfolio of COPs issues. However, the District shall keep its variable rate exposure, to the extent not hedged or swapped to fixed rate, at or below 20% of the total principal of outstanding COPs or $100 million, whichever is less. Under no circumstances will the District issue variable rate debt for arbitrage purposes. If variable rate debt is used, the Assistant Superintendent, Business Services will periodically, but at least annually, determine whether it is appropriate to convert the debt to fixed interest rates.

B. Debt Affordability: The determination of how much indebtedness the District should incur will be based on a Capital Financing Plan (the "Plan") that is currently being developed by the Office of the Assistant Superintendent, Business Services, which analyzes the long-term infrastructure needs of the District, and the impact of planned debt issuances on the long-term affordability of all outstanding debt. The Plan will be based on the District's current five-year capital plan and will include all District financings to be repaid from the General Fund or special funds. The affordability of the incurrence of debt will be determined by calculating various debt ratios (itemized below) which would result after issuance of the debt and analyzing the trends over time.

C. Targets and Ceilings for Debt Affordability: One of the factors contributing to the District's high credit ratings is its moderate General Fund-supported debt level relative to other large issuers and as compared to the resources available to repay the debt. The issuance of debt to be repaid from the General Fund and other internal District resources (typically, the District's certificates of participation) must be carefully monitored to maintain a balance between debt and said resources.

The District's credit environment is also affected by the District's issuance of its general obligation bonds paid from voter approved tax levies as well as the debt issuance activities of other agencies (for example, the City of Hemet, the County of Riverside and the Mt. San Jacinto Community College District) whose jurisdictions overlap those of the District. It is important for the District to examine debt burden ratios for such debt as well, even though such debt is not paid from the District's General Fund or other internal resources. Further, the tax receipts used to repay the Districts general obligation bonds are levied and collected by the County of Riverside and are not controlled by the District.

Tables 1 and 2 provide a listing of the debt burden factors that will be monitored by the Assistant Superintendent, Business Services in the case of debt to be repaid from the General Fund or other District resources. The measured debt factors will be compared to targeted and maximum levels for those factors. The targets and ceilings are intended to guide policy. The targets and ceilings do not mean that debt issuance is automatically approved if there is room under a particular target or ceiling. On the contrary, each and every proposed debt issuance must be individually presented to and approved by the Board of Education.

i. Debt Ratios: The following table sets forth the debt ratios to be monitored under the Policy and their targeted levels and Policy ceilings, if applicable.

Table 1

Debt Factor	Target	Ceiling
COP Gross Debt Service Limit (percentage)	3.00% of total general fund expenditures	4.00% of total general fund expenditures
COP Gross Debt Service (2012-13 First Interim)	$5,385,237	$7,180,317

Table 2

Debt Burden Ratio	Benchmark
Direct Debt to Assessed Value	Standard & Poor's median for school districts with student populations between 20,000 and 150,000
Overall Debt to Assessed Value	Standard & Poor's median for student school districts with populations between 20,000 and 150,000
Direct Debt per Capita	Standard & Poor's median for A rated school districts with student populations between 20,000 and 150,000
Overall Debt per Capita	Standard & Poor's median for A rated school districts with student populations between 20,000 and 150,000

"Direct Debt" includes all debt that is repaid from the General Fund or from any tax revenues deposited into special funds not supporting revenue bonds.

"Overall Debt" includes any debt that is paid from general tax revenues and special assessments by residents in the District. This includes debt issued by other agencies whose taxing boundaries overlap the District, such as the City of Hemet, the County of Riverside and the Eastern Municipal Water District, but excludes revenue bonds.

D. Monitor Impact on District Taxpayer of Voter-Approved Taxes: In addition to the analysis of the District's debt affordability, the Plan will review the impact of debt issuance on District taxpayers. This analysis will incorporate the District's general obligation bond tax levies as well as tax rates imposed by overlapping jurisdictions as reported in the District's Comprehensive Annual Financial Report (CAFR). In addition, the District will monitor the performance of the actual tax levy rate per $100,000 of assessed value for each general obligation bond authorization versus what the tax levy rate was expected to be at the time of the original bond election and include said performance in the Debt Report. The Measure E and Measure T Bonds were each authorized with a tax levy limitation of $60 per $100,000 of assessed value to repay bonds issued under each authorization (Measure).

Section 3.09 **Use of Corporations as Lessor for COPs Issues**

The District had established two special purpose corporations to assist in COPs financings as lessor: the Hemet Unified School District School Facilities Corporation and the Hemet Unified Property Acquisition Corporation. The Property Acquisition Corporation is being disbanded in 2012-13 as it is no longer deemed necessary. The District shall continue to use the Facilities Corporation rather than private corporations as lessor whenever feasible. The District shall maintain proper records relating to the corporation and prepare audits as required.

Article IV. **Related Issues**

Section 4.01 **Capital Improvement Program**

Planning and management of the District's Capital Improvement Program rests primarily with the Facilities Services Division under the Superintendent's direction, subject to review by the Bond Oversight Committee and approval by the Board of Education. The Facilities Master Plan and Strategic Execution Plans provide an overall description of the District's current Facilities Improvement Program. The Facilities Services Division will, as appropriate, supplement and revise these plans in keeping with the District's current needs for the acquisition, development and/or improvement of District's real estate and facilities. The plans must include a summary of total cost of each project, schedules for the projects, the expected quarterly cash requirements, and annual appropriations, in order for the projects to be completed.

The Office of the Assistant Superintendent, Business Services shall prepare the annual Capital Financing Plan and a capital program budget as part of the annual budget for the District. The capital program budget shall identify all appropriations for the capital program, sources of funds, uses of funds, future funding requirements for project completion and an estimate of the capital program's impact on subsequent operating budgets. The District Board, upon advice from the Assistant Superintendent, Business Services, may consider incurring subsequent debt to fund multiple phases of the Facilities Improvement Program.

Section 4.02 **Reporting of Debt**

The Comprehensive Annual Financial Report will serve as the repository for statements of indebtedness. The annual debt statement certifies the amount of (i) new debt issued**,** (ii) debt outstanding**,** (iii) debt authorized but not issued**,** (iv) assessed valuation and (v) outstanding debt expressed as a percentage of assessed valuation**,** each as of the end of the fiscal year to which the CAFR relates. The CAFR will be posted on the District's website as well as the District's dissemination agent's website.

Section 4.03 **Financial Disclosure**

The District shall prepare or cause to be prepared appropriate disclosures as required by Securities and Exchange Commission Rule 15c2-12, the federal government, the State of California, rating agencies, bond insurers, underwriters, bond counsel, investors, taxpayers, and other persons or entities entitled to disclosure to ensure compliance with applicable laws and regulations and agreements to provide ongoing disclosure.

The District shall make available its annual CAFRs, budgets and Official Statements on the official District website or on the dissemination agent's website so that interested persons have a convenient way to locate major financial reports and documents pertaining to the District's finances and debt.

Section 4.04 **Review of Financing Proposals**

All capital financing proposals involving a pledge of the District's credit through the sale of securities, execution of loans or lease agreements or otherwise directly or indirectly the lending or pledging of the District's credit initially shall be referred to the Assistant Superintendent, Business Services who shall determine the financial feasibility of such proposal and make recommendations accordingly to the Board.

Section 4.05 **Establishing Financing Prioritie**s

The Office of the Assistant Superintendent, Business Services shall administer and coordinate the Policy and the District's debt issuance program and activities, including timing of issuance, method of sale, structuring the issue and marketing strategies. The Assistant Superintendent, Business Services shall, as appropriate, report to the Superintendent and the Board regarding the status of the current and future year programs and make specific recommendations.

Section 4.06 **Rating Agency, Bond Insurer, and Credit Enhancer Relations**

The District shall endeavor to maintain effective relations with the rating agencies, bond insurers, and credit enhancers. The Assistant Superintendent, Business Services along with the District's financial advisors shall meet with, make presentations to, or otherwise communicate with the rating agencies, bond insurers, and credit enhancers on a consistent and regular basis in order to keep the agencies informed concerning the District's capital plans, debt issuance program, and other appropriate financial information.

Section 4.07 **Investment Community Relations**

The District shall endeavor to maintain a positive relationship with the investment community. The Office of the Assistant Superintendent, Business Services shall, as necessary, prepare reports and other forms of communication regarding the District's indebtedness, as well as its future financing plans. This includes information presented to the media and other public sources of information. To the extent applicable, such communications shall be posted on the District's website.

Section 4.08 **Refunding and Restructuring Policy**

Whenever deemed to be in the best interest of the District, the District shall consider refunding or restructuring outstanding debt when financially advantageous or beneficial for structuring. The Assistant Superintendent, Business Services shall review a net present value analysis of any proposed refunding in order to make a determination regarding the cost-effectiveness of the proposed refunding. The target net present value savings as a percentage of the refunded aggregate principal amount shall be no less than 3% per maturity unless, at the discretion of the Assistant Superintendent, Business Services, a lower percentage is more applicable, such as, for transactions with only a few years until maturity or for COPs being defeased or redeemed from proceeds of G.O. Bonds.

The Assistant Superintendent, Business Services shall be empowered to restructure escrow funds for the District's refunded Bonds and COPs from time to time when savings can be achieved. The Assistant Superintendent, Business Services shall review a savings analysis of any proposed restructuring in order to make a determination regarding its cost-effectiveness. The target net savings shall be no less than $1.0 million unless, at the discretion of the Assistant Superintendent, Business Services, a lower amount is more appropriate given the nature of the particular escrow fund. Any savings from such restructuring shall be applied in accordance with legal and tax considerations and legal analysis at the time such savings are available.

Section 4.09 **Investment of Borrowed Proceeds**

The District acknowledges its on-going fiduciary responsibilities to actively manage the proceeds of debt issued for public purposes in a manner that is consistent with California law governing the investment of public funds and with the permitted securities covenants of related bond documents executed by the District. Where applicable, the District's official investment policy shall govern specific methods of investment of bond related proceeds. The District shall competitively bid the purchase of investment securities, investment contracts, float contracts, forward purchase agreements and any other investments pertaining to its tax-exempt debt issues. An independent broker, registered investment advisor or the County of Riverside shall solicit bids for investment products. The District's underwriters, but not its financial advisors, may bid on investment products. Preservation of principal will be the primary goal of any investment strategy followed by the availability of funds, followed by return on investment.

The management of public funds shall enable the District to respond to changes in markets or changes in payment or construction schedules so as to (i) ensure liquidity and (ii) minimize risk.

Section 4.10 **Federal Arbitrage Rebate Requirement**

The District shall maintain or cause to be maintained an appropriate system of accounting to calculate bond investment arbitrage earnings in accordance with the Tax Reform Act of 1986, as amended or supplemented and applicable United States Treasury regulations related thereto.

Section 4.11 **Transaction Records**

The Assistant Superintendent, Business Services or designee shall maintain complete records of decisions made in connection with each financing, including the selection of members of the financing team, the structuring of the financing, selection of credit enhancement products and providers, and selection of investment products. Each transaction file shall include the official transcript for the financing, the final number runs, and a post-pricing summary of the debt issue. The Office of the Assistant Superintendent, Business Services shall timely provide a summary of each financing to the Board.

Section 4.12 **Financing Team Members**

A. Retention of Consultants

i. General: All financial advisors, bond counsel, disclosure counsel, and underwriters will be selected from a pool to be created through a Request for Proposals (RFP) or Request for Qualifications (RFQ) process, whichever is most appropriate given the circumstances. In isolated instances, such contracts may be awarded on a sole source basis if it is clear that an RFP/RFQ process would not be feasible or in the District's interests. The District's contracting policies will apply to all contracts with finance professionals.

ii. General Financial Advisor: The District will retain a general financial advisory team to provide general advice on the District's debt management program, financial condition, budget options and bond rating agency relations. Additionally, the general financial advisor will structure the District's General Obligation bond issuances and may be used on an as-needed basis to structure bond issuances that do not fall into the other categories of District debt obligations.

iii. As-Needed Bond Counsel: The District will select a bond counsel team to be used on an as-needed basis to structure bond issuances which do not fall into the other categories of District debt obligations. Additionally, one or more of the firms will be selected to provide general legal advice on debt financing.

iv. Other District Bond Programs: Financial advisory and bond counsel teams will be selected for the District's general lease financings, TRANs, Community Facilities Districts, special revenue bonds and any other bond program which may be created. Depending on particular expertise and consultant availability, some firms may be used on more than one program. However, efforts will be made to establish different teams to provide a number of firms the opportunity to participate in District contracts.

B. Use of Independent Financial Advisors

i. Use of Independent Financial Advisors on Competitive Sales: The District will strive to hire financial advisors who do not participate in the underwriting or trading of bonds or other securities. Under certain circumstances, however, it may be in the District's interests to hire an investment banking firm to act as financial advisor on specific bond issues. In the event that a financial advisor working for the District does underwrite, the firm will, under no circumstances, be permitted to lead a syndicate which is bidding on the project for which the firm is acting as financial advisor. In some circumstances, such as a very routine financing and financings for which the financial advisor did not play a lead role in structuring the transaction and upon request of the firm, the District may allow the firm to participate in a bidding syndicate in a non-book running role.

ii. Use of Independent Financial Advisors on Negotiated Sales: In recognition of the fact that in a negotiated sale the goals of the underwriters and the issuer are inherently in conflict, the District will hire financial advisors who do not participate in the underwriting or trading of bonds or other securities to represent the District for issues of $5,000,000 or more. The only exception to this policy would be that if all independent financial advisory firms which responded to the RFP are found to be unqualified. In this event, the District may hire an underwriter to act as financial advisor to the District. However, the underwriter would be prevented from participating in the underwriting of the transaction, and no firm which had any profit sharing or other type of agreement with any member of the underwriting team for the transaction in question or any other transaction for any issuer would be allowed to serve as financial advisor.

iii. Use of Investment Advisors for Investment Advice: Although, in most instances, the Office of the Assistant Superintendent, Business Services will make all investment decisions relative to temporary investments pending the expenditure of bond proceeds, a registered investment advisor may provide investment advice on re-funding and other transactions with specialized investment needs.

C. Disclosure by Financing Team Members; Ethics

All financing team members will be required to provide full and complete disclosure, under penalty of perjury, relative to any and all agreements with other financing team members and outside parties. The extent of the disclosure may vary depending on the nature of the transaction. However, in general terms, no agreements will be permitted which would compromise a firm's ability to provide independent advice which is solely in the best interests of the District, or which could reasonably be perceived as a conflict of interest. All financing team members shall abide by the Board's code of ethics.

Section 4.13 **Special Situations**

Changes in the capital markets, District programs and other unforeseen circumstances may from time to time produce situations that are not covered by the Policy. These situations may require modifications or exceptions to achieve policy goals. Management flexibility is appropriate and necessary in such situations, provided specific authorization is received from the Board.