ENDOWMENT FUND INVESTMENT BOARD
School Bond Credit Enhancement Policy

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Last Reviewed:	**February 2018**
Last Revised:	**February 2018**

Overview
The purpose of the Credit Enhancement Program is to provide a guaranty which reduces borrowing costs on voter-approved general obligation school bonds of Idaho school districts and to earn a return for the Public School Endowment Fund in the process. The reduction in borrowing costs is achieved by obtaining a higher rating on the bonds because the EFIB makes a non-cancellable commitment that the Treasurer can borrow funds from the Public School Endowment Fund to make a bond payment in the unlikely event that the school district or the state, through its School Bond Guaranty Program, are unable to.

The Credit Enhancement Program for School District Bonds is established by Idaho Code Section 57-728 and operates within the administrative rules specified in IDAPA 32.01.01. The Endowment Fund Investment Board has established this policy to guide administration of the Program.

Application Form
Applications for credit enhancement are made using the joint application form provided by the State Treasurer's Office on its website: https://sto.idaho.gov/Debt-Management/Idaho-School-Bond-Guaranty-ISBG.

Approval Criteria
Idaho school districts manage their finances and bond issues under strict guidelines specified in statute and the Department of Education rules and procedures. The statute also grants the EFIB special privileges to ensure it is both repaid in full and obtains an appropriate return for any loan made related to a school bond payment. In order to be approved, an applicant must have the following minimum qualifications

- The bond must qualify under the provisions of statute
- The EFIB, at its sole discretion as fiduciary of the Public School Endowment Fund, determines that the credit enhancement of the bond is an appropriate investment

Reasons a credit enhancement would not be an appropriate investment include, but are not limited to:

- Failure to have current audited financial statements
- Material adverse qualifications in the independent auditor's opinion concerning the district's financial statements
- Actual or anticipated material adverse change in the economic structure of the district's tax base (e.g. a decline in a major local industry or a natural disaster)
- Actual or likely borrowing by the Treasurer under the Program
- Material adverse change in the endowment fund's liquidity at the time of investment
- Uncompensated risk
- The credit enhancement diverts assets from higher returning investments

- Incompatibility of the investment with the investment strategy for the Public School Endowment
- Uncompensated costs to the Public School Endowment or to another fund managed by the EFIB

The EFIB will make all decisions concerning the Credit Enhancement Program in compliance with its fiduciary responsibilities to the Public School Endowment and to the other funds managed by the EFIB. The above list is not exhaustive and the EFIB may decline to invest in a bond's credit enhancement at its discretion.

Application Review Process
Each application shall, at a minimum, be reviewed to confirm:

- That the application form is complete
- That the bond has been approved by the Treasurer for participation in the state's Guaranty Program
- That the bond and the district received a favorable analysis of financial condition from the Superintendent of Public Instruction's office
- That three years of audited financial statements and the approved budget have been included with the application
- That there are no material qualifications to the independent auditor's opinion in the latest audit report
- The amount of existing bonds outstanding
- That the Tax Commission has provided the latest available value of taxable property in the district
- That bonds outstanding, plus the new issue, do not exceed 5% of taxable property value
- That the amount of previously guaranteed bonds outstanding plus the new issue will not exceed the statutory limit of $40,000,000
- That the total outstanding principal amount of guaranteed bonds plus the new issue does not exceed the statutory limit of $1,200,000,000
- That there are no unpaid fees related to the district's previous requests for a guaranty
- That there have not been any material adverse legal, market, financial industry, or other changes affecting the Credit Enhancement Program or the Public School Endowment Fund

The EFIB will respond in writing to applicants within 20 business days of receipt of a completed application, which includes written approval from the State Treasurer. The response will indicate that the application has been either approved or denied, or requesting additional information necessary to evaluate the application.

Delegation of Authority
The EFIB delegates authority to staff to evaluate applications and to request that the issuing school district approve retention of outside professionals to assist in the evaluation. The EFIB further delegates authority to the MOI to approve applications if all aspects of the Approval Criteria are met and if the information listed in the Application Review Process above is confirmed.

The EFIB delegates authority to the Executive Committee to approve applications at the request of, or in the absence of the MOI, or where authority has not been delegated to the MOI.

Fees for Issuing the Credit Enhancement

School districts shall pay the following fees for credit enhancement of their bonds:

- Non-refundable application fee of $500 to be submitted at the same time of the application
- A one-time guaranty fee to the Public School Endowment Fund in the amount of 2 basis points (0.0002) times the total debt service (principal and expected interest to maturity) of the bonds, to be paid within five days of the sale of the bonds
- Professional fees incurred by the EFIB to prudently and appropriately evaluate the school district's application

EFIB staff shall provide instructions to the school districts on how to remit the fees.

The application fee is intended to recover the cost of administering the Program. Relevant costs include, but are not limited to, consulting fees, attorney fees, and time spent by the EFIB and staff:

- Communicating program provisions to stakeholders
- Reviewing applications (confirming the applicants meet the approval criteria detailed in the application review process) and issuing approval or denial letters
- Drafting and testifying regarding changes to administrative rules
- Drafting and testifying regarding changes to statutes
- Monitoring revisions of statutes and other changes affecting the Guaranty Program and the state's supervision of school district finances
- Maintaining records and producing reports for the Credit Enhancement Program
- Conducting investment analysis concerning the Credit Enhancement Program

The guaranty fee is intended to ensure the Public School Endowment Fund recovers its opportunity cost for making a long-term, non-cancellable, commitment of liquidity to guaranty payment of a bond issue. The fee also ensures that all beneficiaries of the Fund are compensated for commitments that primarily benefit a specific school district. Some of the factors the EFIB takes into account when considering the appropriateness of the guaranty fee include, but are not limited to, the following:

- The likelihood of loss of principal (the current fee assumes no material risk of principal loss)
- The credit ratings of the state and its School Bond Guaranty Program
- Market prices of similar credit enhancements (the current fee is below the market price of similar credit enhancements, partly due to the EFIB's unique statutory authority to ensure recovery of any funds loaned)
- Changes in statutes governing the state's Guaranty Program, particularly the Treasurer's ability to intercept state payments, redirect sales taxes and intervene in school district finances when a default is threatened
- Changes in the amount of sales tax revenues or state payments to school districts available to the Treasurer to satisfy obligations under the Guaranty and Credit Enhancement Programs
- Changes in the criteria and process used by the Treasurer to approve bonds for the Guaranty Program
- Changes in statutes and the Department of Education monitoring procedures related to school district bond issues and general district financial management

- Liquidity needs and costs of the Fund
- Asset mix of the Fund Maximum amount guaranteed by the Fund under the Credit Enhancement Program relative to the size of the Public School Endowment Fund
- Amounts guaranteed by the Fund for other investments (currently zero)
- Changes to the investment strategy for the Public School Endowment Fund
- The impact of guarantees on the investment of other funds managed by the EFIB, including fees and investment costs arising from changes to investment pooling

The EFIB may determine it necessary to retain an outside professional to assist in evaluating an application. The EFIB must first obtain written permission from the school district to retain the outside professional, and the district may either choose to approve the expenditure or withdraw the application. Once approval of the district has been obtained, EFIB staff has authority to spend up to $5,000 on retention of these outside experts. The Executive Committee must approve any spending in excess of $5,000.

Deposit of Fees

Administrative fees will be deposited in the endowment fund cash account with the custodian and distributed as a reimbursement of expenses to the Earnings Reserve funds of all Land Grant endowments.

The funds from the one-time guaranty fee will be deposited in the endowment cash account and distributed as income to the Public School Earnings Reserve in the plan allocation process.

Reporting Requirements for the Credit Enhancement Program

Each quarter, staff shall report the following to the EFIB:

- Total principal amount of bonds outstanding
- Total estimated payments due in the next year
- Each new guarantee issued, including: school district, principal amount, fees paid, and estimated present value of interest cost savings from the credit enhancement

This policy shall be posted on the EFIB's website.

When the EFIB is considering making any substantive changes to this policy, staff shall provide advance notice of this consideration, if practical, to interested parties, including the Treasurer, the Superintendent of Public Instruction, the Idaho School Boards Association, the Idaho Association of School Administrators, the Idaho Education Association and the Idaho PTA.

Actions to be Taken upon Notice of Potential Default

Upon notification from a school district, the Treasurer, or the Superintendent of Public Instruction, per Idaho Code Section 33-5305(1)(c) & 2(c), that a district may require the support of the School Bond Guaranty Program to make a payment on a bond covered by the Credit Enhancement Program, EFIB staff will promptly prepare a preliminary plan of funding that payment and submit this to all EFIB members for their review and comment.

Required Investment in Notes

Once the Treasurer has determined that the state must make a payment and has exhausted the backup sources of liquidity contained in Idaho Code Section 33-5308(1), the Treasurer may require the EFIB, per Idaho Code Sections 33-5308(3) and 57-728(4)(b), to purchase a note from the State according to the terms listed in statute.

Upon receiving notice from the Treasurer of a required purchase of a note, EFIB staff will promptly prepare a final plan of funding for that purchase and submit it to EFIB members for their review and comment. Recognizing that time will likely be of the essence, the EFIB delegates to the Executive Committee authority to authorize purchase of the note from the Treasurer.

The funds to purchase the note shall be obtained from the Public School Endowment Fund, unless the Executive Committee, in their sole discretion, decides to purchase all or part of the note from other funds under EFIB control. The EFIB assumes no responsibility to allocate the investment in the notes to any or all of the funds under its control in a fair and equitable manner.

The EFIB may incur professional fees as required to prudently and appropriately purchase a note from the Treasurer. The MOI may engage outside professionals without the prior permission of the school district after receiving approval from the Chair or the Executive Committee. All professional fees will be invoiced to the school district.

At the time the note is issued, the EFIB will determine the amount of administrative and transaction costs related to the purchase of the note. Factors to be examined in setting this amount include, but are not limited to:

- Time spent by the EFIB and its staff in performing duties related to purchasing the note
- Cost of liquidating investments to raise cash to purchase the note, including, but not limited to, commissions market impact costs, etc.

The EFIB will increase the interest rate charged to the State and the district for the note to recover these transaction costs, up to 50 basis points for the first six months of the term.

Voluntary Investment in Notes

The EFIB, may, at its option per Idaho Code Sections 33-5308(1)(d) and 57-728(4)(a), purchase notes from the Treasurer before the Treasurer has exhausted all the backup sources of liquidity contained in Idaho Code Section 33-5308(1). If the Treasurer requests that the EFIB consider a voluntary purchase of notes, EFIB staff will immediately notify the EFIB of the request, promptly prepare a plan of funding, and enter into negotiations with the Treasurer on the terms of such notes.

Any voluntary loan must be approved by the Executive Committee. The funds to make such a purchase shall be obtained from same sources as described under “Required Investment.” The EFIB has no responsibility to allocate the investment in the notes to any or all of the funds under its control in a fair and equitable manner.