C.3.1 (Policy) Debt Management
Responsible Department: Vice Chancellor for Finance and Administration
Board Adoption: 5-17-11
Last Board Action: 5-19-15

General

This Policy (the "Policy") establishes conditions for the use of debt and creates procedures and policies designed to manage the Alamo Community College District's (the "College District") obligations within available resources, minimize the debt service and issuance costs, achieve the highest credit ratings, maintain full, complete, and accurate financial disclosure and reporting, and to comply with appropriate and applicable laws of the State of Texas (the "State") and federal law.

Scope

Within the applicable laws of the State, the College District may enter into debt obligations to finance the construction or acquisition of buildings and infrastructure and other assets, maintenance of existing facilities, to purchase land and personal property, or the option to refinance or restructure existing debt. Unless recommended otherwise by the Vice Chancellor for Finance and Administration, whose recommendation must be approved by the Board of Trustees, all debt will be incurred at the College District level or through a non-profit corporation created by the College District. This Policy applies to all debt issued regardless of the purpose for which issued or the funding source for repayment. The Vice Chancellor for Finance and Administration is responsible for the debt management for the College District. Responsibility for the operational activity related to management of debt may be delegated to the Associate Vice Chancellor of Finance and Fiscal Services (AVC), or Treasurer,

Objectives

The objective of the Policy is to ensure prudent debt management practices that include:

- Minimize or avoid year-to-year fluctuations in the tax rate
- Minimize borrowing costs
- Structure the earliest possible maturity of the debt
- Preserve or enhance the District's credit ratings
- Assure full, complete, and accurate financial disclosure and reporting compliance
- Comply with State and federal laws

Available Borrowing Methods

General Obligation Bonds - These bonds are issued for the acquisition of land, building construction costs, and the furnishing and equipping of buildings. The College District secures these bonds through levying, assessing and collecting ad valorem taxes sufficient to pay the principal and interest when due provided that the annual bond tax rate will never exceed the State statutory limit or the limits established by the College District's qualified voters. The College District's statutory maximum tax rate is established pursuant to Section 130.122, as amended, Texas Education Code at $1.00 per $100 of taxable assessed value (of which a maximum of $0.50 may be utilized for debt service purposes). However, the College District's qualified voters limited the total tax rates - maintenance and operations ("M&O") and debt service- to a combined amount not to exceed $0.25 per $100 of taxable assessed value at an election held on September 30, 1952. These bonds require voter authorization.

Maintenance Tax Notes - The College District may issue notes that are primarily payable by the College District's maintenance and operations tax, but may be paid from any available funds to secure these notes. Repayment may be made through either ad-valorem tax revenues or non-tax revenues. This debt will be used for furnishing and equipping existing buildings, and for making renovations and repairs at existing facilities. These notes do not require voter authorization.

Revenue Bonds - The College District may issue revenue bonds for the acquisition of land, buildings, building construction costs, and the furnishing and equipping of buildings. These bonds are payable from and are secured by pledged revenue s, such as tuition and other fees, generally a reserve fund, or other resources. Voter approval is not required. Debt service coverage ratios or other bond provisions contained in existing bond covenants must be considered when issuing new revenue debt.

Lease Revenue Bonds - Under Chapter 303 of the Texas Local Government Code, the College District is authorized to establish a Public Finance Corporation ("PFC"). This corporation has the authority to issue bonds to construct facilities for the College District without an election. The College District would lease these facilities from the PFC to pay the debt service. These bonds are payable based upon an annual appropriation from lawfully available funds, including from M&O tax revenues. The funds may be used for construction, furnishing, and equipping the facilities. Public notice must be given prior to sale, which permits a petition process to require an election.

<u>Refunding Bonds</u>- All or any part of the College District's outstanding bond issues may be refunded or refinanced.

<u>Other</u>- From time to time, other financing options may be considered, including <u>Contract Revenue</u>

<u>Bonds</u>- Capital improvements may be financed through Contract Revenue Bonds, which requires the District to enter into a contract with a third party entity. They are payable from either taxes, revenues, or both. Voter approval is not generally required.

<u>Taxable Debt</u>- When market conditions are favorable, taxable debt may be used for all or part of a debt issue and to comply with limitations imposed by the Internal Revenue Code of 1986, as amended (the "Code"). Taxable debt may also be issued for refunding if favorable savings will be achieved and the refunded tax-exempt issue cannot be advance refunded per the Code.

<u>Private Placements</u>- Private placements are sold directly to investors. They can be short or medium term, fixed or floating rate, and the term will match the useful life of the financed assets. Private placements may be used for financing specific assets or programs when it provides more advantageous terms than the capital markets, has a favorable structure, and financing is needed more quickly than what may be obtained through a public offering.

<u>Alternative Structures</u>

The College District will <u>not</u> use alternative methods of financial management products such as interest rate swaps, derivative products, etc. in connection with any outstanding and newly issued bonds without the express authorization from the Board of Trustees.

<u>Debt Management Plan</u>

Annually, a Debt Management Plan (the "Plan") will be presented to the Board of Trustees by the Vice Chancellor of Finance and Administration or the Associate Vice Chancellor of Finance and Fiscal Services. Developed in conjunction with the College District's Financial Advisor, this Plan will include information on the current debt outstanding; any previously approved but not settled financing activities, and borrowing capacity. It will include anticipated financings needs related to the Capital Improvement Program ("CIP") or other funding needs. When the CIP requires a debt issuance for which a market opportunity is realized, a Parameter Order with reference to a specific debt issuance will be submitted for approval, allowing the President- Board of Trustees, the Secretary- Board of Trustees, Chancellor, or Vice Chancellor for Finance and Administration to commit to certain financing decisions. The Parameter Order allows the execution of a pricing certificate evidencing final sale terms of a debt financing. The Parameter Order provides flexibility for the College District's Administration to react when market conditions warrant. Parameter

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Orders will be limited as to size and scope to comply with State law and per direction by the Board of Trustees.

Conditions for New Money Debt Issuance

The timing of borrowing will be structured to meet the CIP and to minimize the effect of negative arbitrage. When the investment earnings on borrowed proceeds are below the cost of borrowing, borrowed capital may have to be increased to provide sufficient funds to pay project expenses. Since this practice increases the cost and limits the productivity of borrowed capital, the College District will seek to minimize negative arbitrage where practical.

Any external borrowing will be coordinated to the extent possible so that multiple project needs can be accommodated in a single borrowing. Under a Parameter Order for a specific new money debt, the President- Board of Trustees, Secretary- Board of Trustees, Chancellor, or Vice Chancellor for Finance and Administration may proceed with a new money debt issuance if the appropriate conditions are met as set forth in the Parameter Order.

Conditions for Debt Refunding

Periodic reviews of outstanding debt will be undertaken to determine refunding opportunities. Refunding will be considered based on economic benefit, or as needed to alter covenants, restructure debt, or stabilize the tax rate. Current refundings require at least a 3% net present value as a percentage of the par amount of the refunded bonds to be considered. Advance refunding transaction should be considered when the net present value savings as a percentage of the par amount of the refunded bonds is at least 5%, with a minimal amount of negative arbitrage in the refunding escrow. Other factors should be considered, such as reinvestment rates and impact on the structure of the escrow. The threshold rates may be disregarded under a refunding done solely for business reasons, such as for restructuring purposes. As provided in the Code, an issue may be advance refunded only once on a tax exempt basis. The term of the refunding funds should not exceed the term of the bonds being refunded unless the debt is being restructured. Under a Parameter Order for a refunding bond, the President- Board of Trustees, Secretary- Board of Trustees, Chancellor or Vice President for Finance and Administration may proceed with a debt refunding if the appropriate conditions are met as set forth in the Parameter Order.

Conditions for Debt Defeasance

Debt defeasance with funds on hand will be undertaken only after careful consideration of the District's cash flow. This may be considered as part of an overall plan to manage the District's tax rate.

Parameters for Debt Issuance

The term of debt will typically be for 20 years or less and will not generally exceed 30 years. Debt will be issued on a fixed or variable rate basis. The College District will normally seek to avoid the use of capitalized interest.

In general, debt should be issued with the earliest optional redemption date that is determined to be cost-effective. Typically, debt with a final maturity beyond ten years will be structured with an optional redemption in ten years at par. Debt may be structured with serial or term bonds or any combination thereof.

Selection of Consultants

The College District will select its financial advisor, investment banking firms, and arbitrage rebate compliance specialist by competitive process through the issuance of Request for Qualifications. Bond counsel will be selected pursuant to a Request for Qualifications process as set forth in Section 1201. 027, Texas Government Code. These competitive selection processes shall be utilized by the College District for a term of three years, with two optional one year extensions. An underwriting pool will be created from which the underwriting syndicate will be chosen. The size and composition of each syndicate will be based upon:

- Initiation and implementation of innovative financing ideas and structures
- The expertise of bankers required for the transaction
- The underwriting capabilities as determined by excess net capital and distribution networks relative to the size of the transaction
- Performance of each syndicate member in past transactions

The selection of the underwriting syndicate for each bond transaction will be determined by both a rotation process and by the performance of the firm during prior transactions. Each syndicate will be balanced by capitalization. The number of firms in the syndicate will be based on the size of the issue.

Compliance Reporting/Procedures

Continuing Disclosure - The College District will comply with SEC Rule 152-12 by filing directly or through a third party dissemination agent with the Municipal Securities Rulemaking Board (MSRB) using its Electronic Municipal Market Access system (EMMA) annual financial statements and certain required financial and operating data.

Arbitrage Rebate Compliance - Adequate recordkeeping will be maintained to meet arbitrage rebate compliance requirements. This includes careful tracking of investment earnings on debt proceeds and remitting any rebatable earnings to the federal government in a timely manner. An outside compliance specialist will be retained to calculate rebate payments and ensure that the College District maintains compliance with arbitrage rules.

Post issuance Procedures are outlined in C.3.1.1 and C.3.1.2.

Rating Agencies

The Associate Vice Chancellor of Finance and Fiscal Services is responsible for maintaining the primary relationship and communicating with the national rating agencies. This communications effort includes providing periodic updates on the College District's general financial condition along with coordinating meetings and presentations in conjunction with debt issuances.

The College District will request a rating from at least two major rating agencies prior to the issuance of debt.

Investment of Bond Proceeds

Investment of debt proceeds will comply with the Board of Trustees approved Investment Policy, State laws, and, as appropriate, the Code.

Policy Review

This Policy will be reviewed in accordance with the College District's Policy review cycle by the Board of Trustees and updated as needed.

References:

Texas Education Code Section 130 (130.112-130.130), Section 45.108
Chapters 1201, 1207, and 1371, Texas Government Code
Local Government Code, Chapter 303
SEC Rule 15c-2-12
SEC Rule 15Ba1-1(d) (3) (vi).
Internal Revenue Code of 1986
Treasury Regulation section 1.141-12