McLennan Community College

POLICIES AND PROCEDURES

Reference:	D-XVI	Effective Date	04/19/2011
Subject:	Debt Management		
Source:	Board of Trustees		
Approval Authority:	Board of Trustees	Approval Date	04/19/2011
History:	Previously effective 04/19/2011, replaced policy dated 02/21/2011		
Remarks:	Policy updated to new format.		

Overview

McLennan Community College will seek debt financing when borrowing in this manner supports achieving the goals of the College's strategic plan. In considering debt, the College will be seeking to improve its competitiveness, attract students and the highest quality faculty and staff, be a responsible steward of its current resources and infrastructure, and fund its vision for capital projects that support the College's mission. Debt will be used in areas where other sources of revenue are unavailable and when use of net assets would jeopardize compliance with the College's financial stability policy.

Debt financing allows the College to pay for an asset over a period of time, up to its useful life, rather than paying at the time of purchase. This is a financially responsible practice for certain types of investments within appropriate limitations and at appropriate interest rates. The College will not use debt funds for projects with a useful life less than repayment of the debt.

Since debt is a limited resource, the College will seek debt as cost-effectively as possible and will evaluate which financing vehicle provides the best value. The College realizes that the decision to incur debt must be strategic since that decision will incur the responsibility to repay the debt in the future. The College will make prudent decisions over a multi-year time frame in coordination with strategic and capital plans. The College will seek advice from the College's financial advisor in determining which debt structure is the most advantageous and in determining debt capacity.

The College will strategically manage its debt in a proactive process through monthly review of the Investment Committee and through the strategic planning of the college led by the Vice President, Finance & Administration in the financial management area. Additionally, the Vice President, Finance & Administration and the Director, Financial Services will review bond covenants and coverage annually and during biannual budget revisions.

The effective use of debt requires both a financial analysis and opinion and a legal analysis and opinion.

Part 1: Principles for Structuring Debt-Financings

Since debt is limited and the demand for debt may exceed the supply at some point in time, it is imperative that borrowings are structured to effectively utilize this resource. Guidelines will assure that the College stretches these resources as far as possible and that financings are executed at the lowest cost. Guidelines to utilize in structuring external borrowings are:

When issuing debt, the College will seek the lowest-cost source of financing available and will consult with the College's financial advisor.

External borrowings will be for the minimum required portion of project cost.

A financed project must have an identifiable, high-probability repayment source.

Unrestricted reserves will be examined and may be utilized up to a reasonable level to support the project investment prior to accessing external debt. These contributions will be limited to levels which do not jeopardize the maintenance of appropriate operating reserves to protect the College from cash flow deficits and unexpected costs.

External borrowings will not fund debt service reserve requirements unless it is more cost-effective to do so.

All debt service reserve requirements will be met with surety bonds rather than yield-restricted reserve funds when this is cost-effective. This conserves debt capacity for project costs.

External borrowings will be coordinated to the extent practical so that multiple project needs can be accommodated in a single borrowing, reducing the use of debt capacity for issuance costs.

Since many issuance costs do not vary with the size of a borrowing, increasing size reduces the amount of debt capacity used to support issuance costs.

Internal loans may provide interim financing until debt is placed externally.

The College will actively consider refinancing a single outstanding debt issue when net savings for that refinancing, measured on a net present value basis, are positive.

Call options on outstanding borrowings will be exercised when this offers net present value savings when compared to the alternative investment opportunities for these funds.

The maturity on a tax-exempt bond issue should be as short as economically feasible for the project, with the goal not to exceed the useful life of the financed asset.

Since debt is a limited resource, it should be viewed as a facilitator for the acquisition of assets. Repayment should be made as quickly as financially feasible to free up these resources for other projects.

Part 2: Implementing Procedures of Refinancing and New Borrowings

Financial Analysis Procedure

The Vice President, Finance & Administration will determine that external borrowing meets the needs of the College and that debt repayment is manageable through the College's resources (if a revenue bond or through the local tax base based upon an analysis of debt capacity if a general obligation bond). The Vice President, Finance & Administration will include the 125% coverage test from primary resources before proceeding for revenue bonds. A recommendation will be made to the President who will make a recommendation to the Board of Trustees to move forward with borrowing resources to accomplish the strategic purposes of the College.

Assumptions for the financial analysis for the ability of these operations to repay debt will be evaluated by the financial advisor.

The Board approves the financial assumptions inherent in these plans by reviewing the financing plan and the financing parameters.

The official statement prepared for the bond buyers will include a statement which identifies the revenues and other money pledged for payment of principal and interest on the revenue bonds;

The Vice President, Finance & Administration will review the underwriters' analysis and determine that the interest rate projections for the refinancing will produce the expected savings to assure that the savings are sufficient to cover the costs of the refinancing and provide net present value savings to the College. The Vice President, Finance & Administration will monitor the timing of the transaction to assure that sufficient savings are realized.

Notwithstanding these procedures, it is impossible to predict the exact savings from a financing transaction since the savings are dependent upon market conditions at the time of the borrowing, and interest rates are not known until the issuance is completed.

Legal Analysis Procedures

The Board of Trustees will receive favorable opinions from the College's Bond Counsel and from the College's Counsel regarding the Board's authority under Texas State Law for the planned transaction.

Part 3: Annual Monitoring for Compliance of College Debt with State Statutes and Bond Covenants

The Vice President, Finance & Administration will provide independent auditors appropriate bond information to be included in the annual audit.