Policy III.3001.D, Debt Management

Purpose
This purpose of this Debt Management Policy (the "Policy") is to provide the San Jacinto Community College District' (the "College" or "College District") with guidelines to establish and maintain a well-defined debt management program for issuing new debt and managing outstanding debt. The Policy will help the College sustain a strong debt management program focused on supporting the lowest available borrowing costs and greatest amount of management flexibility for the College.

Policy
This policy establishes conditions for the use of debt and creates parameters designed to manage the debt obligations of the College 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 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 to refinance or restructure existing debt, also known as a "refunding." This Policy applies to all debt issued by the College regardless of the purpose for which issued or the funding source for repayment. The Vice Chancellor of Fiscal Affairs is responsible for the debt management for the College. Responsibility for the operational activity related to management of debt may be delegated to other administrative employees as appropriate.

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

- Maintain financial stability;
- Preserve public trust;
- Minimize costs to taxpayers;
- Manage the cost of capital;
- Mitigate risks associated with its debt;
- Monitor the overall capital structure and use of debt instruments;
- Preserve or enhance the College's credit ratings;
- Execute debt issuance in an efficient and cost-effective manner;
- Assure full, complete, and accurate financial disclosure and post-issuance reporting compliance;
- Comply with State and federal laws.

Available Borrowing Methods – The available borrowing methods include:

General Obligation Bonds - General Obligation ("GO") bonds are issued for the acquisition of land, building construction costs, and the furnishing and equipping of buildings. The College District secures GO bonds through levying, assessing and collecting ad valorem taxes sufficient to pay the principal and interest when due, provided that the annual interest and sinking fund ("I&S") 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 $.70 per $100 of taxable assessed value (of which a maximum of $0.50 may be utilized for debt service purposes). GO bonds require voter authorization.

Maintenance Tax Notes – Maintenance Tax Notes may be issued for any legal maintenance expenditures, including furnishing and equipping existing buildings, and for making renovations and repairs at existing facilities. Maintenance Tax Notes may be paid and secured from any available funds. Repayment may be made through either ad valorem tax revenues or non-tax revenues. Maintenance Tax Notes do not require voter authorization. Maintenance Tax Notes may not at any time exceed 75 percent of the previous year's unrestricted revenues, and must mature not more than 20 years from their issue date.

Revenue Bonds – Revenue Bonds may be issued for the acquisition of land, buildings, building construction costs, and the furnishing and equipping of buildings. Revenue Bonds are payable from and are secured by pledged operating revenues, 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 – Lease Revenue Bonds may be used for construction, furnishing, and equipping the facilities. Under Chapter 303 of the Texas Local Government Code, the College District is authorized to establish a Public Finance Corporation ("PFC") with 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 maintenance and operating ("M&O") tax revenues. The funds Public notice must be given prior to sale, which permits a petition process to require an election.

Contractual Obligations – The College is authorized to incur contractual obligations under Section 271.005 of the Local Government Code to pay for items such as buses, computers, furniture and other moveable personal property. These contractual obligations may be in the form of a lease, a lease with an option or options to purchase, an installment purchase, or any other form considered appropriate.

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

Other - From time to time, other financing options may be considered, including:

- Contract Revenue Bonds - 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.

- Taxable Debt - 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.
- Private Placements - 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.

Alternative Structures – The College District will not 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.

Parameter Orders - When the Capital Improvement Program (“CIP”) requires a previously approved debt issuance for which a market opportunity is realized, a Parameter Order with reference to a specific debt issuance will be submitted for approval of the Board of Trustees, allowing the Chancellor or Vice Chancellor of Fiscal Affairs 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 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 other needs, 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 Chancellor or Vice Chancellor of Fiscal Affairs may proceed with a new money debt issuance if the appropriate conditions are met as set forth in the Parameter Order.

The term of long-term debt shall in no case exceed 30 years.

Conditions for Short-Term Debt Issuance – Short-term financing will be considered for projects that cannot be funded from available current resources. The repayment term of any issue will be the greater of five (5) years or the longest useful life of any asset class purchased from the proceeds of the issue. The total amount financed may not exceed 10% of operating revenue.

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 will generally require at least a 3% net present value as a percentage of the par amount of the refunded bonds to be considered. The threshold rates may be disregarded for a refunding undertaken solely for business reasons, such as for restructuring purposes. 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 Chancellor or Vice Chancellor of Fiscal Affairs may proceed with a debt refunding if the appropriate conditions are met as set forth in the Parameter Order.

Conditions for Debt Defeasance - Defeasance of debt with funds on hand will be undertaken only after careful consideration of the District's cash flow. Generally, a defeasance will require the engagement of the College's municipal advisor, bond counsel, disclosure counsel, and a verification agent to provide an opinion on the sufficiency of funds in the escrow funded to defease debt. The College will ensure that any material event filings required in connection with the defeasance are posted timely to Electronic Municipal Market Access (EMMA).

Parameters for Debt Issuance –

Term – The term of debt will generally not exceed 30 years. Debt may be issued on a fixed or variable rate basis. Variable rate debt may serve as a natural interest rate hedge but should be used judiciously. Variable rate debt shall not exceed more than 20% of the College's total outstanding debt. 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.

Method of Sale - The Vice Chancellor of Fiscal Affairs, in consultation with the College's municipal advisor, shall determine the method of sale best suited for each issue of debt. Possible methods of sale include a competitive sale, a negotiated sale, or a private placement.

Competitive Sale – A competitive sale is a public securities offering in which the College will request underwriters to submit a firm offer to purchase its bonds. The bonds are awarded to an underwriter or a syndicate of underwriters based on the lowest True Interest Cost bid, provided the bid meets all other requirements sale parameters included in the official Notice of Sale.

Negotiated Sale – A negotiated sale is a public securities offering in which the College pre-selects an underwriter or an underwriting syndicate, generally from its pre-approved pool of underwriters, to reoffer bonds to investors. The primary points of negotiation for the College with the underwriting syndicate are the interest rate, call features, and purchase price of the issue.

Private Placement – A private placement is a method of sale in which the College engages a placement agent to sell its bonds directly to a financial institution. A private placement typically does not require an offering document or public ratings and may have lower costs of issuance. A private placement is generally an option when a proposed bond issue has a final maturity not exceeding 15 years. A private placement may be used if it is determined to provide greater efficiencies and overall value for the College relative to a public competitive or negotiated sale.

External Financial Professionals - The College District will select its independent municipal advisor, bond counsel, disclosure counsel and arbitrage rebate compliance specialist using an approved procurement process. An underwriting pool will be competitively created, from which the underwriting syndicate will be chosen for each negotiated bond transaction.

Compliance Reporting/Procedures

- <u>Continuing Disclosure</u> - 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's ("MSRB") Electronic Municipal Market Access ("EMMA")/ The College will file annual financial statements and certain required financial and operating data, as agreed to its Continuing Disclosure Agreements with bondholders.

- <u>Arbitrage Rebate Compliance</u> - Adequate recordkeeping will be maintained to meet arbitrage rebate compliance requirements. This includes careful tracking of investment earnings on debt proceeds and remitting any rebates due 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 Procedure III.3001.D.a, Debt Management – Post-Issuance Compliance. The College will make every effort to ensure and manage other post-issuance compliance procedures including debt covenants and compliance with federal tax law.

Rating Agencies - The Vice Chancellor of Fiscal Affairs 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.

Debt Structure and Repayment Provisions – The College will structure and seek to repay its debt in an expeditious manner within the College's overall financial objectives and in consideration of the useful life of the project and dedicated repayment revenue sources. Debt will be structured with the following goals:

- Ensure earliest possible maturity of bonds in consideration of the useful life of the asset(s) being financed and budget or tax rate considerations;
- Match or improve upon tax rate assumptions and projections as discussed with citizens at the time of bond election;
- Maintain a debt service tax rate that is stable and minimizes significant year-to-year fluctuations; and
- Maintain or improve the College's bond ratings.

Management of Debt Service Fund – The College shall maintain a Debt Service Fund into which the proceeds from all taxes levied, assessed and collected for and on account of bonds are deposited, and from which debt service on Bonds will be paid. The Fund will be managed to ensure that taxes collected for and on account of voted debt will be sufficient each year to pay such debt service. The revenue, expenditures, and balance of the Debt Service Fund will be approved annually as part of the College's budget.

Reporting – The Vice Chancellor of Fiscal Affairs will provide summary debt management reports to the Board Finance Committee annually or with every bond sale.

The Authority, Applicability, Sanctions, Exclusions, and Interpretation do not differ from Policy II.2000.A, Policy and Procedures Development, Review, Revision, and Rescission.

Associated Procedures
Procedure III.3001.D.a, Debt Management: Post Issuance Compliance

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Primary Owner	Vice Chancellor, Fiscal Affairs
Secondary Owner	Director, Accounting and Financial Services