DEBT MANAGEMENT

ADMINISTRATIVE RULE NUMBER: A004
LAST APPROVED: April, 01, 2013, December 2016
RELATED TO POLICY SERIES NUMBER: 108

INTRODUCTIONS: A004.1

Following is the procedure for implementing the Board policy on Debt Management.

To meet the objectives of the policy, the College incurs and services all debts in a manner that will:

A. Maintain a balanced relationship between debt service requirements and current operating needs.

B. Maintain and enhance the College's ability to obtain access to credit markets, at favorable interest rates, in amounts needed for capital improvements and, if necessary, to provide essential services.

C. Prudently incur and manage debt to minimize costs to the taxpayers and ensure that current decisions do not adversely affect the long-term financial standing of the College.

D. Preserve the College's flexibility in capital financing by maintaining an adequate margin of statutory debt capacity.

TYPES OF DEBT: A004.2

A. Direct debt

The College may consider debt payable from general revenues, including but not limited to capital leases, certificates of participation (COP's), pension obligation bonds, full faith and credit obligations (FFCO's) and tax/revenue anticipation notes (TRAN's).

B. General obligation bonds

Debt payable from property tax levies lawfully approved by the voters of the district in an election. This debt is preferred for major capital construction, acquisition and renovation projects. Other options should be considered for less major projects.

C. Inter-fund Borrowing

Loans for short term cash flow needs. This type of debt will be authorized by the Board annually as needed by resolution.

DEBT LIMITS: A004.3

A. Legal debt limit

B. Oregon Revised Statute (ORS) 341.675 (3) limits the aggregate amount of bonded indebtedness to no more than “one and one-half percent (.015) of the real market value of all taxable property within the district, computed in accordance with ORS 308.207.”

C. The College’s outstanding debt at any time shall not exceed 65 percent of the College’s legal debt limit.

D. Obligations such as tax/revenue anticipation notes issued in anticipation of taxes and other revenue shall not exceed 80 percent of the amount budgeted to be received for the fiscal year. Such debt generally shall not be issued prior to the beginning of, and shall mature not later than the end of, the fiscal year in which the taxes or other revenue are expected to be received. However, an exception could be made to go longer if the situation warrants. The College President will determine, in consultation with the CFO, whether such an exception is warranted. Regardless, the College shall follow the federal and state laws and regulations governing this type of obligation.

E. The College will not incur general fund debt which places an unreasonable drain on resources for educational purposes or adversely impacts the College’s ability to maintain its desired fund balance. General fund debt, excluding pension obligation bonds, will not exceed 18 percent of annual general fund revenues.

DEBT STRUCTURING: A004.4

A. Maximum term

Maturity schedules will not be utilized that are longer than a conservative estimate of the useful life of the asset to be financed. The College will attempt to keep the average maturity of general obligation bonds at or below 20 years.

B. Debt service pattern

The College will attempt to match the debt service pattern to balance the goals of stability of payments with matching payment streams with revenue streams. In general, equal payments are preferred over equal principle amortization.

B. In order to maintain a stable debt service burden, the College will attempt to issue debt that carries a fixed interest rate. However, it is recognized that certain circumstances may warrant the issuances of variable rate debt. In those instances, the College should attempt to stabilize debt service payments through the use of an appropriate stabilization arrangement.

DEBT ISSUANCE: A004.5

A. Method of sale

Generally, the College shall use the competitive bid process when issuing debt obligations, except for as provided in section (2) below.

The College shall prepare and make available upon request, to bidders and investors, a preliminary official statement containing all relevant information required by federal and state law.

The College may use an alternative method such as negotiated sale, private placement or limited public offering if it can be clearly demonstrated that such method will produce the most cost effective results.

a. The College shall maintain a debt rating of no lower than A on all its outstanding indebtedness. For short-term debts (such as TRANs) or longer term debt under $2 million, it may not be beneficial for the College to get ratings because of cost. The College President will determine whether the College should secure rating for such debts on a case-by-case basis.

b. The College may obtain credit enhancement devices providing additional security for the payment of all or any portion of the amounts owing on the debt obligations, or for the purpose of funding, in lieu of cash, all or any portion of any debt service reserve. Credit enhancement may be in the form of letter of credit, municipal bond insurance or other device or facility used to enhance the creditworthiness of the debt obligations. Credit enhancements will be used only in instances where the anticipated present value savings in terms of reduced interest expense exceeds the cost of the credit enhancement.

B. The College shall employ professional, technical, and legal services to ensure the most cost effective method of selling the debt. These services may include legal services (bond counsel), financial advisory services, and paying agent services. The College shall avoid, when appropriate, employing the services of financial advisors who can also be underwriters, in order to avoid the conflict of interest and get the best benefits for the College.

C. The College shall secure ratings from Moody's, Standard and Poor's and/or other ratings agencies on all sales of indebtedness when it is deemed to be beneficial to the College.

D. Cash surpluses, to the extent available and appropriable, should be used to finance scheduled capital improvements.

E. The College shall not construct or acquire a public facility if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility.

F. The College should consider coordinating with other local government entities to the fullest extent possible, so as to minimize the overlapping debt burden to citizens.

DEBT MANAGEMENT: A004.6

A. The College will be appropriately prudent in its investment of the proceeds from the bond sales.

B. The College will follow a policy of full disclosure in its comprehensive annual financial statements, as well as in preliminary official statements and offering documents when issuing debt. Significant financial reports affecting or commenting on the College will be forwarded to the ratings agencies.

C. The College will ensure that an adequate system of internal control exists so as to provide reasonable assurance as to compliance with appropriate laws, rules, regulations, and covenants associated with outstanding debt, including arbitrage rebate monitoring and filing.

D. The College shall maintain a debt service fund to account for property tax revenues levied to pay for the maturing principal and interest of general obligation bonds and to establish adequate fund balance to meet the cash outlay requirements of non-general obligation bond financings.

E. Non-voter-approved obligations do not have a dedicated source of revenue for repayment and need to be handled differently than voter-approved obligations. Indebtedness under this category includes, but is not limited to: certificate of participation bonds (COPs), revenue bonds, limited taxable general obligation bonds, pension obligation bonds, and certain long-term lease financings.

    a. Unlike voter-approved obligations where payment for debt service is made through annual additional property tax levy, the resources to pay the debt service on non-voter-approved obligations comes from general operating resources of the College. It is essential to set aside a reserve to pay the debt service of the obligations to prevent default in times of financial difficulty.

b. As a guide, the College shall consider maintaining a debt service reserve equal to 100 percent of one year debt service requirements. This is to allow the College to have more time to implement measures due to contract obligations. The exact level will be determined on a case-by-case basis by the Board, upon recommendation from the President.

c. Exceptions to the standard reserve requirement may be made if the annual debt service payment on the indebtedness is under $125,000. For debts above $125,000, exceptions may be made on a case-by-case basis by the Board, upon recommendation from President.