NEW

STATEMENT OF PURPOSE

The purpose of the Collin College Debt Management Policy is to establish and maintain well defined debt management guidelines for issuing new debt as well as managing outstanding debt and to provide a framework to sustain a strong debt management program emphasizing the lowest available borrowing costs and greatest management flexibility.

SCOPE

The Collin College Debt Management Policy applies to all debt instruments issued by the College regardless of the purpose for which issued or the funding source for repayment.

OBJECTIVE

The primary objective is to ensure prudent debt management practices which:

A. Maintain financial stability
B. Preserve public trust
C. Minimize costs to taxpayers
D. Minimize borrowing costs
E. Preserve access to financial markets
F. Demonstrate adequate administrative oversight of debt programs to credit rating agencies

AVAILABLE BORROWING METHODS

The College is authorized to issue the following types of debt as approved by the Texas Education Code and the Texas Government Code:

A. **General Obligation Bonds (“GO Bonds” or “Limited Tax Debt”) –** The Texas Education Code § 130.122 authorizes community colleges to issue bonds for the construction, acquisition, and equipment of college buildings and the purchase of necessary sites for college buildings. The College secures these bonds through levying, pledging, assessing and collecting annual ad valorem taxes sufficient to pay the principal and interest on the bonds as they become due provided that the annual bond tax shall, by local election when the College was formed, never exceed 12 cents on a $100 valuation of taxable property in the district. The combined rate for bond taxes and maintenance taxes, by local election when the College was formed, shall never exceed the aggregate of 20 cents on a $100 valuation of taxable property in the district. Bonds may be issued in various series or issues and shall mature serially or otherwise not more than 40 years from their issuance date and shall bear interest at the rate established by the Board of Trustees and may, if the bond covenants allow, be redeemed before maturity. The bonds require voter approval to be issued (§ 130.122 (b)).

B. **Maintenance Tax Notes ("MTN") -** The College may pledge any available funds of the College, including the proceeds of its maintenance tax, to secure negotiable maintenance tax notes under § 45.108, §130.084 and §130.126 of the Texas Education Code. The proceeds of these notes may be used for any legal maintenance expenditure including environmental clean up and asbestos removal programs or maintenance, repair, rehabilitation, or replacement of heating, air conditioning, water, sanitation, roofing, flooring, electric or other building systems of existing school properties. Notes issued pursuant to this section may not at any time exceed 75 percent of the previous year's income, may be issued only after a budget has been adopted for the current academic year, and must mature not more than 20 years from their date. Voter approval is not required.

C. **Tax Anticipation Notes ("TAN")** – The College may issue short-term notes (less than one year) for working capital (cash-flow) purposes. TAN can provide low-cost funding for expenditures prior to receipt of maintenance taxes or other revenues. No election is required. TAN are issued under § 45.108 and § 130.084 of the Texas Education Code. Voter approval is not required.

D. **Delinquent Tax Notes -** § 45.104 of the Texas Education Code authorizes the College to pledge any delinquent taxes levied for maintenance purposes to secure a loan and may evidence such loan with negotiable notes. The proceeds of these loans may be employed for any legal maintenance expenditure including all costs incurred in connection with environmental clean up and asbestos removal programs or maintenance, repair, rehabilitation or replacement of heating, air conditioning, water, sanitation, roofing, flooring, electric or other building systems of existing school properties. Negotiable notes issued under this section must mature not more than 20 years from their date. Voter approval is not required.

E. **Time Warrants -** § 45.103 of the Texas Education Code authorizes the College to issue time warrants. The warrants must mature in not more than 5 years from their date of issuance and are payable out of any available funds of the College. No election is required to issue time warrants. Time warrants may be issued to provide funds to construct, repair, or renovate school buildings, purchase school buildings and school equipment, or equip school properties with necessary heating, water, sanitation, lunch room, or electric facilities. A school district may not have more than

$500,000 in time warrants outstanding at any one time. Voter approval is not required.

F. **Contractual Obligations -** The College is authorized to incur contractual obligations under Chapter 271 of the Local Government Code to pay for school buses, computers, furniture and other moveable personal property. These contractual obligations are payable from maintenance taxes. The maturity of a contractual obligation may not exceed 25 years. Voter approval is not required.

G. **Lease Purchase Agreement -** The College is authorized to form a Public Property Finance Corporation under Chapter 303 of the Local Government Code. This corporation has the authority to issue bonds to construct any necessary facilities for the College without an election. These bonds are secured by lease payments, payable from the College's maintenance tax and any other lawfully available funds, paid by the College to the Corporation. A 60 day public notice must be given prior to sale, which permits a petition process. If 15% of voters sign a petition the sale is blocked pending a separate election. The statutory authority is §271.004 of the Public property Finance Act.

H. **Revenue Bonds -** Under § 130.123 of the Texas Education Code, the College is authorized to issue revenue bonds to provide funds to acquire, purchase, construct, improve, renovate, enlarge, equip, operate, and/or maintain any property, buildings, structures, activities, or operations of any nature. The bonds are payable from and secured by liens on and pledges of all or any part of any of the non-ad valorem tax revenues from any tuition and fees, rentals, rates, charges, fees, or other resources of the College. Voter approval is not required.

I. **Refunding Bonds –** Chapter 1207, Texas Government Code, authorizes college districts to refund or refinance all or any part of the College's outstanding bonds and matured or unmatured but unpaid interest on those bonds payable from ad valorem taxes by issuing refunding bonds payable from ad valorem taxes.

J. **Certificates of Indebtedness –** A College in a county with a population of 200,000 or more may issue Certificates of Indebtedness for the purpose of providing funds for the erection and equipment of buildings. Certificates of Indebtedness are payable from and secured by maintenance taxes. The maximum principal amount that College may have outstanding at any one time is limited to $250,000.

Certificates of Indebtedness are also subject to maximum debt service requirements based on the College's assessed valuation. Voter approval is not required. Statutory authority for issuance is § 45.111 of the Texas Education Code.

K. **Credit Agreements –** A college with over 40,000 in enrollment or with at least $100 million in authorized and outstanding debt may enter into credit agreements in connection with its debt offerings. These agreements permit more aggressive structures, sweeps and hedges.

DEBT FINANCING GUIDELINES

The College will consider all possible debt structures which, when combined, allow for flexibility in responding to future needs, do not utilize all available debt capacity, continue to emphasize credit considerations, and match well with the useful life of the assets for which debt is incurred.

A. Debt is a financing tool which should be judiciously used within the College's legal, financial and debt market capacities.

B. Debt Defined – The creation of debt occurs when a governing body incurs a financial obligation that cannot or will not be repaid over a period greater than the current fiscal year.

1. Cash Flow Financing – Cash flow financing refers to tax and revenue anticipation notes (TANS) that are issued in anticipation of the receipt of revenues, and the tax dollars are levied, appropriated, and expected to be received in the fiscal year in which the note is issued. TANS are payable from current year revenues and, therefore, do not constitute debt.

2. Short-Term Debt – For purposes of this policy, short-term debt refers to debt with a repayment term of less than five (5) years.

3. Long-Term Debt – For purposes of this policy, long-term debt refers to debt with a repayment term greater than the maximum term of short-term debt, up to the maximum term allowable by law.

C. **Conditions for Which Short-Term Debt May Be Issued -** 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.

D. Conditions for Which Long-Term Debt May Be Issued – Long-Term debt is generally issued to finance major capital improvements: i.e. to purchase facility/venue sites, to finance infrastructure improvements, construction of new facilities, significant expansions of existing facilities, extensive remodeling of existing structures and the equipping thereof.

1. **General Obligation Bonds –** Capital requirements for the construction, acquisition, and equipping of buildings, and the purchase of necessary sites for buildings will be identified through the College's Master Planning activities. Capital improvements recommended as a result of the Master Planning process are formalized in a capital improvement program (CIP) subject to voter approval. The capital planning process may incorporate demographic data, facility planning data, and debt financing data from the College's Financial Advisor, architects and other professionals.

2. **Debt Refunding –** The refinancing and/or restructuring of debt are valuable debt management tools used to provide the College with debt service savings or debt payment relief. Debt is often restructured through the issuance of refunding bonds. Current refundings occur when the refunding bonds are settled within 90 days of an optional prepayment date. Advance refundings occur when the refundings are settled more than 90 days in advance of an optional prepayment date. Federal restrictions allow an issue to be advance refunded only once on a tax exempt basis. Current refundings will require a 3% net present value threshold to be deemed appropriate. Advance refunding transactions should be considered when the net present value savings as a percentage of the par amount of refunded bonds is at least 4%.

3. **Variable Rate Debt –** Variable rate debt, when issued prudently, can help lower the cost of borrowing and provide a hedge against interest rate risk. Interest rates on variable rate debt instruments are at the short end of the yield curve because they are periodically reset (e.g. daily, weekly, or monthly) based on current market conditions. Variable rate debt gives investors the right to "put" securities back to the issuer at their discretion at specified future intervals. When issuing variable rate

debt (as opposed to fixed rate debt), the College team will involve additional parties - a Remarketing Agent, a Liquidity Provider, and a Tender Agent. The Remarketing Agent determines the interest rate for the reset period, notifies the bondholders (through the Tender Agent) and remarkets any bonds tendered to either different bond buyers or the Liquidity Provider. The Liquidity Provider is usually a national or multi-national bank that provides the College with liquidity through a Standby Bond Purchase Agreement or other credit agreement. Should there be a failed remarketing, the Bonds would be placed with the Liquidity Provider until the bonds can be effectively remarketed. The Tender Agent accepts the tender bonds from the holders and notifies the College, remarketing agent, liquidity provider, and the bondholders of required mandatory or optional tender notices or rate changes. As a general rule, some rating agencies recommend that variable rate debt not exceed 25 percent of total bonds outstanding, although other factors may affect their evaluation of the amount they regard as acceptable. The College may consider issuing variable rate bonds when fixed-rate interest costs are high, as variable short-term interest rates are consistently lower than long-term fixed rates. Total variable debt will not exceed 20% of the College's total outstanding debt.

4. **Unauthorized Structures –** The College will not utilize swaps, hedges and other similar derivative products as a method of issuance.

E. Restrictions / Limitations of Debt Issuance:

1. **Maintenance Tax Limitations –** Maintenance Tax Notes may not at any time exceed 75 percent of the previous year's income, may be issued only after a budget has been adopted for the current school year, and must mature not more than 20 years from their date. The maximum maintenance tax rate allowable by statute is $0.20 per $100 of taxable assessed valuation.

2. **Debt Tax Limitations –** The College will evaluate debt limitations in developing debt issuance plans. The College is authorized to issue bonds and levy taxes for repayment subject to voter approval of a proposition under § 130.122(b) of the Texas Education Code. § 130.122(a) provides for a maximum tax levy of $0.50 per $100 of taxable valuation of property in the district

for the support of College bonded indebtedness however, due to a locally voted limitation, Collin College's maximum tax rate for bonds issued under Section 130.122 is $0.12 per $100 of taxable valuation of property in the district. § 130.122(d) requires the College to demonstrate to the Texas Attorney General that the bonds have been authorized in accordance with the law before bonds may be issued.

3. **Maturity Levels –** The term of debt shall in no case exceed 30 years. The average (weighted) bond maturities shall be kept at or below 20 years.

4. **Repayment Provisions** – The College will structure its debt in compliance with all federal, state, and local requirements as to repayment terms 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. The College will structure its debt with five primary goals: 1) attempt to retire outstanding bonds at the earliest possible time to lessen borrowing costs, 2) attempt to match or improve upon the Interest & Sinking (I&S) tax rate assumptions and projections as discussed with the citizens of the College at the time of the bond election, 3) attempt to maintain a debt service tax rate that is stable and avoids significant year-to-year fluctuations, and 4) seek to repay at least 33% of the principal amount within 10 years, 50% of principal within 15 years, 67% within 20 years, and 5) maintain or improve the College's bond ratings.

5. **Debt Ratios** – The College will also evaluate debt affordability ratios in developing debt issuance plans:
   - Ratio of Net Bonded Debt to Assessed Value
   - Ratio of Total Debt to Assessed Value
   - Ratio of Net Bonded Debt per Student
   - Ratio of Total Debt per Student

F. Debt Issuance Process:

1. **Preferred Method of Sale**
   - Competitive Sale - The College will sell new issue bonds through a competitive sale unless specific market conditions exist which warrant a different process, as determined by the College and its' Financial Advisors. In a competitive sale, bonds are marketed via a Request For Proposals solicitation

process to a wide spectrum of investment banking (underwriting) firms. The underwriter is selected based on predetermined factors that require a responsive, responsible bid and that provides the lowest true interest cost to Collin College.

- Negotiated Sale - The College may use the negotiated sale method when circumstances exist which, in the opinion of the College and its' Financial Advisors, may offer the best opportunity for best value on the transaction due to smaller volume of a refunding or advance refunding of bonds or other unusual conditions. In a negotiated sale, Collin College will select one or more underwriters through a competitive process. This process will include a request for proposals from firms considered appropriate for the underwriting of a particular issue. The College's Financial Advisor will assist in establishing appropriate predetermined criteria for the evaluation of underwriter proposals. College staff, with assistance from the Financial Advisor, will evaluate the proposals and make a recommendation to engage an underwriter or underwriters to the District President. The District President will subsequently make a recommendation to the Board Audit and Finance Committee and the Board of Trustees. The Board will select one or more underwriters that it believes will provide the College with the best combination of value and true interest cost.

2. External Financial Professionals:

a. Financial Advisor – The College's Financial Advisor will work with College staff to:

- Ensure that the College's bonds are issued at the lowest possible interest cost and are structured in accordance with the College's financing guidelines
- Prepare the Notice of Sale, Preliminary Official Statement, and the Official Statement
- Assist with credit enhancements
- Assist with engaging Remarketing Agents, Liquidity Providers, and Tender Agents as appropriate
- Assist in evaluating submitted bids/proposals and formulating recommendations thereon
- Review draft closing documents and monitor the closing process

- Assist in the preparation of and submit the College's Annual Disclosure Report in accordance with SEC Rule 15c2-12
- Assist in establishing repayment schedules that complement existing requirements and maintain a repayment pace acceptable to credit rating agencies

b. **Bond Counsel** – The College's Bond Counsel will:
   - Certify that the College has the legal authority to issue bonds
   - Prepare required orders, resolutions, and tax certificates
   - Work with the Attorney General to obtain approval of the bond issue
   - Provide a legal opinion as to the enforceability and the federal income tax implications of the bonds
   - Coordinate transactions

c. **Paying Agent / Registrar** – The College's Paying Agent will:
   - Authenticate the bonds
   - Send/receive transfers of money at closing
   - Maintain a listing of bondholders and applicable addresses
   - Receive principal and interest payments from the College and remit to bondholders
   - Represents bondholders in case of default

d. **Rating Agencies –** The College will obtain a credit rating from at least two nationally recognized bond rating agencies on all bond issues. There are currently three nationally recognized rating agencies: Moody's Investors Service, Standard & Poor's, and Fitch Ratings, Inc. Rating agencies assign a credit rating to bonds based on rating agency assessment of the College's financial position and ability to make full and timely payments of principal and interest, and provide a ratings report to the market prior to the sale.

3. **Timing of Sales –** The College's Financial Advisor will work with College's Vice President of Administrative Services/CFO to assure that bond proceeds are available for projects or that authorized but unissued bonds are scheduled for sale prior to the execution of construction or purchase contracts.

4. **Bond Rating Goals –** The College will strive to maintain excellent bond ratings through:

   a. Strong financial management practices

   b. Timely disclosure of annual financial information including the Comprehensive Annual Financial Report prepared by management and attested to by external auditors engaged by the Board of Trustees

   c. Maintaining good relationships and communications with bond rating agencies including site visits or meetings in person when required

5. **Disclosure Requirements –** The Securities and Exchange Commission (SEC) regulates both primary disclosure (the initial marketing of bonds) and continuing disclosure (the ongoing information to the market about the status of the issue and issuer). The Securities and Exchange Commission Rule 15c2-12, as amended, requires the College to provide updated annual financial information within six months of the fiscal year end to designated state and national information repositories. Timely and accurate information can improve the marketability of the College's bonds. The College will work with its Financial Advisor to prepare and file the annual report with each nationally recognized municipal securities information repository (NRMSIR) and the state information depository (SID) in order to fully comply with regulations.

MANAGEMENT OF BOND PROCEEDS

When bonds are issued, the proceeds are deposited in various accounts as required by the specific circumstances of the issue. Examples of accounts are: a construction fund, a debt service fund, and an escrow fund in a refunding. Monies allocated to these funds are invested until needed. The investment strategy for each fund will depend, in part, on federal and state statutes and regulations governing the types of instruments permitted to be used, the yield permitted for the fund, and the anticipated drawdown of bond proceeds. Investment of bond proceeds shall comply with College policy, the Public Funds Investment Act (PFIA) (Texas Government Code 2256), the Public Funds Collateral Act (Texas Government Code 2257), federal and state laws, and will match or be shorter than anticipated cash flow requirements per the draw schedule for capital projects. The College's Financial Advisor may not bid on investment products. Investment income generated from the deposit of bond proceeds will be transferred from the Capital Project Fund(s) to the Debt Service Fund for the purpose of paying principal and interest costs on current and future debt.

The College will incur, within six months of the date on which proceeds are issued, a binding obligation to a third party to expend at least five percent of the sale proceeds of the Bonds on a Bond Project. The College reasonably expects that work on or acquisition of the Project will proceed with due diligence to completion and that the proceeds of the Bonds will be expended on the Project within reasonable dispatch. The College reasonably expects that 85 percent of the sale Proceeds of the Bonds will have been expended on the Project prior to the date that is three years after the Issue Date. Any Sale Proceeds not expended prior to the date that is three years after the Issue Date, will either be invested at a yield not "materially higher" (or make yield restriction payments) than the true interest costs of the bonds. Not less often than every fifth anniversary date of the delivery of the Bonds and within 60 days following the final maturity of the Bonds the College shall perform arbitrage post-issuance compliance calculations.

MANAGEMENT OF DEBT SERVICE FUND

The College has created or continued a debt service fund ("Debt Service Fund") and the proceeds from all taxes levied, assessed, and collected for and on account of bonds are to be deposited in such Fund. The College will manage the Interest and Sinking portion of its tax rate to assure that taxes levied, assessed and collected for and on account of voted debt will be sufficient each year to pay such debt service. The investment objective for the Debt Service Fund will be to achieve a proper matching of investment maturities with principal and interest requirements within each bond year.

A. **Interest Earnings –** Interest earnings in the Debt Service Fund will be used for the purpose of paying principal, interest costs, and related fees on current and future debt.

B. **Unreserved, Undesignated Fund Balance -** The College shall target a minimum debt service fund balance of **10%** of the annual debt service requirements on all outstanding debt issuance.

C. **I&S Tax Rate Stabilization –** The College will call or defease variable rate bonds, if any are outstanding, as required by the bond order. The College may also call or defease additional variable rate bonds in order to stabilize the I&S tax rate or the total tax rate. This process will be conducted in the spring or early summer of each year as estimates for the following years' taxable assessed value are known.

COMPLIANCE

A. Compliance with Statutory Regulations – The College will comply with all statutory regulations in the issuance and structuring of debt obligations.

B. Federal Arbitrage and Rebate Compliance – The arbitrage rules are statutory rules set forth in the Internal Revenue Code of 1986, as interpreted from time to time by regulations promulgated by the U. S. Treasury Department and rulings by the Internal Revenue Service. Generally, the rules fall into two broad categories - investment rules and rebate rules. The investment rules limit the amount that can be earned by investing proceeds from tax-exempt bond transactions. The rebate rules are designed to require the local governmental issuer to pay to the United States Treasury certain amounts of "arbitrage profit" that may be earned under the investment rules. Both sets of rules require compliance. The College will take all necessary steps to comply with the requirements that "rebate arbitrage earnings" on the investment of "gross proceeds" of bonds, within the meaning of section 148(f) of the Code be rebated to the federal government. Specifically, the College will (a) maintain records regarding the investment of the "gross proceeds" of bonds as may be required to calculate such "rebatable arbitrage earnings" separately from records of amounts on deposit in the funds and accounts of the College which are allocable to other bond issues of the College, (b) calculate at such intervals as may be required by applicable Regulations, the amount of "rebatable arbitrage earnings," earned from the investment of "gross proceeds" of bonds and (c), pay, not less often than every fifth anniversary date of the delivery of bonds and within 60 days following the final maturity of bonds, or on such other dates required or permitted by applicable Regulations, all amounts required to be rebated to the federal government. The College will maintain a copy of any such calculations, and all documentation necessary to produce such calculations or necessary to establish qualification for an exemption from the need to produce such calculations, for at least six years after the close of the final calendar year during which any bond is outstanding. In addition to bond counsel, the College will contract with a third party arbitrage compliance specialist to insure that the College maintains compliance with arbitrage rules.

C. Disclosures – Issuers of municipal bonds with an aggregate of $10 million or more in outstanding debt are required by SEC Rule 15c2-12 as amended, to annually disclose certain operating data as well as audited financial statements. The required secondary market or ongoing disclosure documents are due to the state information depository (SID) and each nationally recognized municipal securities information repository (NRMSIR) within six months of the fiscal year end. For Collin College, the deadline is February 28th following the fiscal year end of August 31st. Accurate and timely filing of ongoing disclosure information is important as it relates to the liquidity of the College's bonds and insures that the College has the best results when accessing the capital markets.

REPORTING TO COMMITTEE/BOARD

The Vice President of Administrative Services/CFO and the College's Financial Advisor will provide summary debt management reports to the Board Audit and Budget Committee at a minimum annually or with every bond sale. The Debt Management Policy will be reviewed on an annual basis and updated as needed.