Operating Standard

Title: Bonds and Indebtedness **Number:** A5000.65
Type: Administrative
Responsible: Vice President of Admin Services
Related Policies: B3006 Financial Condition
A5100 Budget Excellence
Linked Procedures: A5000.00…A5000.125
Related Laws: 110 ILCS 85/3A-1, SEC Rule 15c2-12
Related Standards: GASB Statement No. 54, GFOA Guidance, Moody's Investor Service "Scorecard" Rating System 2014
HLC Criterion: 5B

Statement

For purposes of this procedure, "debt" is defined as any short-term or long-term obligation to repay principal and interest on a loan whether for operating purposes or capital expenditures and including, but not limited to, general obligation bonds, notes, warrants, leases, alternate bonds, debt certificates, installment contract certificates and any other forms of indebtedness.

These goals and guidelines constitute realistic goals the College can expect to meet, <u>and will guide, but not bind</u>, debt management decisions.

A. *Financing Team Members*

The College may use the services of professional service providers, such as Bond Counsel, Legal Counsel, Independent Financial Advisors, Bond Rating Analysts, or other debt management advisors in order to assist the College with the effective management of its debt. Financial Advisors are to be chosen through a qualification-based selection (QBS) process.

All financing team members will be required to provide full and complete disclosure, under penalty of perjury, relative to any and all agreements with other financing team members and outside parties. The extent of the disclosure may vary depending on the nature of the transaction. However, in general terms, no agreements will be permitted which would compromise a firm's ability to provide independent advice which is solely in the best interests of the College, or which could reasonably be perceived as a conflict of interest. All financing team members shall abide by the Board's Ethics Policy as well as State and Federal laws.

B. *Maturity of Debt and Impact on Operating Budget:*
The duration of a debt issue shall be consistent, to the extent possible, with the economic or useful life of the improvement, asset, or duration of liability that the issue is financing. The length of maturity of any debt instrument shall be equal to or less than the useful life of the asset(s) or liability(ies) being financed. The College shall avoid issuing bonds payable through the <u>operating funds</u> greater than a ten-year maturity.

The Board of Trustees will avoid issuing debt for payment of operating expenses unless needed to meet short-term cash flow needs. When considering any debt issuance, the potential impact of debt service and additional operating costs on the College, both short and long-term, will be evaluated.

C. *Debt Service Structure:*
The College shall design the financing schedule and repayment of debt so as to take best advantage of market conditions, provide flexibility, and as practical, to recapture or maximize its credit for future use.

D. *Capitalized Interest:*
Unless required for structuring purposes (e.g. first interest payment due before levy dollars are received), the College will seek to avoid the use of capitalized interest in order to avoid unnecessarily increasing the bond size and interest expense.

E. *Debt Limitation and Overlapping Debt:*
Limitations on bonded indebtedness are determined in relationship to a College's equalized assessed value (EAV) of real property. (110 ILCS 85/3A-1) Public Community College Act limits the College's total outstanding debt to 2.875% of the assessed valuation of the taxable property of the College.

The College shall, when planning for the issuance of new debt, consider the impact of such new debt on overlapping debt and the financing plans of local, state and other governments which overlap with the College.

F. *Reporting of Debt:*
The Annual Audit of the College's Financial Statements will serve as the repository for statements of indebtedness.

G. *Monitoring Outstanding Debt:*
The College will monitor all forms of debt annually and include in discussions with the Board of Trustees. Concerns and recommended remedies will be reported to the Board of Trustees as necessary. The College will, with assistance from Financial Advisor(s), monitor bond covenants and federal regulations concerning debt, and adhere to those covenants and regulations at all times.

H. *Arbitrage:*
All issuances and funds subject to arbitrage constraints shall be monitored by the Vice President of Finance and Operations and have arbitrage liability calculations performed in a timely manner.

I. *Investment of Bond Proceeds:*
Investment of bond proceeds shall at all times follow the College's adopted investment policy, comply with federal arbitrage regulations and meet all requirements of bond proceed covenants.

J. *Financial Disclosure:*
The College will follow a policy of full disclosure on every financial report and official statement, voluntarily following disclosure guidelines provided by the Illinois Community College Board and the Government Finance Officers Association for financial reporting and budget presentation, the disclosure requirements of the Securities and Exchange Commission, and arbitrage and rebate restrictions imposed by the Internal Revenue Service. To the extent necessary, professional service providers will be used to insure compliance with continuing disclosure requirements, SEC Rule 15c2-12, as amended from time to time.

K. *Review of Financing Proposals:*
All capital financing proposals involving a pledge of the College's credit through the sale of securities, execution of loans or lease agreements or otherwise directly or indirectly the lending or pledging of the College's credit initially shall be referred to the Vice President for Financial and Operations who shall determine the financial feasibility of such proposal and make recommendations accordingly to the Board.

Preliminary Official Statements (POS) related to debt issuances shall be reviewed by the Vice President of Financial and Operations, the Director of Business Services, and the Registrar prior to issuing to the public and potential purchaser(s) of the debt instrument(s).

L. *Credit Ratings, Credit Enhancer, and Investment Community Relations:*
The College shall endeavor to maintain a positive relationship with the investment community. The Vice President along with the College's financial advisor shall meet with, make presentations to, or otherwise communicate with the rating agencies, bond insurers and credit enhancers on a consistent and regular basis in order to keep the agencies informed concerning the College's capital plans, debt issuance program, and other appropriate financial information.

The College will make every reasonable effort to maintain its high-quality credit ratings. The College will seek to maintain or improve its current bond rating and will specifically discuss with the Board of Trustees any proposal which might cause that rating to be lowered.

For competitive sales the College will provide the option for the purchaser to obtain credit enhancement, such as municipal bond insurance, at the purchaser's option and cost. In the event of a negotiated sale, the College will seek credit enhancement when necessary for marketing purposes or to make the financing more cost effective.

The Vice President shall, as necessary, prepare reports and other forms of communication regarding the College's indebtedness, as well as its future financing plans. This includes information presented to the media and other public sources of information. To the extent applicable, such communications shall be posted on the College's website.

M. *Call Provisions:*
The College will seek to optimize the cost/benefit trade-off from optional redemption call provisions, consistent with its desire to obtain the flexibilities of call provision on bonds when compared to obtaining the lowest possible interest rates on its bonds. The College and its financial advisor will evaluate optional redemption provisions for each issue to assure that the College does not pay unacceptably higher interest rates to obtain advantageous calls.

N. *Competitive versus Negotiated Debt Issuance:*
The College will consult with its financial advisor to determine whether a competitive sale, negotiated sale or private placement is most appropriate. Such determination may be made on an issue-by-issue basis for a series of issues or for part or all of a specific financing program. A negotiated financing may be used where market volatility, refunding sensitivity or the use of an unusual or complex financing or security structure causes a concern with regard to marketability. The College's financial advisor will prepare and distribute a RFP to at least five underwriting firms, receive and evaluate submitted proposals based

on various criteria and deliver a recommendation to the Vice President. But, the ultimate decision will be based upon the firm's qualifications. A private placement may be used when the transaction is $5 million or less and may result in a favorable outcome to the College with fewer costs of issuance.

O. *Refunding and Restructuring Procedure:*
Whenever deemed to be in the best interest of the College, the College shall consider refunding or restructuring outstanding debt when financially advantageous or beneficial for structuring. The Vice President, along with the College's Financial Advisor, shall review a net present value analysis of any proposed refunding in order to decide regarding the cost-effectiveness of the proposed refunding.

P. *Tax Anticipation Notes or Warrants:*
The College's Fund Balance Procedure is designed to provide adequate cash flow to avoid the need for Tax Anticipation Notes or Warrants through the establishment of designated and undesignated fund balances sufficient to maintain required cash flows and provide reserves for unanticipated expenditures, revenue shortfalls and other specific uses. The College may issue Tax Anticipation Notes or Warrants in a situation beyond the College's control or ability to forecast when the revenue source will be received subsequent to the timing of funds needed.

Q. *Variable Rate Debt:*
To maintain a predictable debt service burden, the College gives preference to debt that carries a fixed interest rate.

R. *Transaction Records:*
The Vice President or designee shall maintain records of decisions made in connection with each financing, including the selection of the financing team members, the structuring of the financing, and selection of investment products. The Vice President shall provide a summary of each financing to the Board.

S. *Special Situations:*
Changes in capital markets, College programs and other unforeseen circumstances may from time to time produce situations not covered by the Procedure. These situations may require modifications or exceptions to achieve procedure goals. Management flexibility is appropriate and necessary in such situations.

Change Log		
Date	**Description of Change**	**Governance Unit**
04.05.21	Initial Adoption	VP of Admin Services
06.13.24	Converted to new template	