Debt Policy

Background and Purpose

Cape Cod Community College is committed to delivering the educational programs and related services to meet the needs of Cape Cod, the islands, and neighboring communities of southeastern Massachusetts. The strategic planning process requires the college to look at all of its resources and to develop guidelines for how best to utilize them to meet future needs. Debt must be used strategically because of the long-term commitment of future financial resources. Therefore, this policy was developed to be consistent with the college’s strategic plan and to guide the decision making process.

Debt is a valuable institutional resource that must be managed to be cost effective, conserved to meet future needs, and used in a manner that promotes the core mission of the college. The capacity to finance projects provides flexibility and enables the college to acquire capital assets and to pay for them over a period of time, typically the asset’s useful life; to implement long-term cost savings projects; and to meet immediate needs resulting from emergencies by spreading the costs over multiple years.

Under the aegis of the Board of Higher Education the colleges receive funding for capital projects from the following sources: Commonwealth General Obligation Bonds, bonds issued by the Massachusetts Health and Educational Facilities Authority (HEFA) and in the case of state colleges, bonds issued by the Massachusetts State College Building Authority (MSCBA). The colleges cannot, on their own, issue debt, they can use debt financing from one of the above referenced sources to finance capital projects.

On June 15, 2006, The Massachusetts Board of Higher Education approved “Debt Policy Guidelines” that required the college to formally adopt a debt policy. This policy incorporates the provisions adopted in the “Guidelines” and will be used by Cape Cod Community College to develop cost effective approaches for securing and employing debt.

Objectives

The objectives of this policy are:

a. To guide the college in its approach and decision-making process to use debt for projects consistent with college’s core mission and strategic plans.

b. To establish targets for selected financial ratios to ensure the college is able to obtain and maintain highest acceptable credit rating.

c. To provide parameters by which the college can bridge cash flow gaps between operating budgets and capital project needs.

d. To establish a framework for determining what projects would qualify for debt financing.
Debt Financing Guidelines

1. Only projects closely related to the college’s core mission will be considered for debt financing. The college will use objective criteria and an open process for prioritizing projects that are consistent with the college’s mission.

2. Projects with related revenue stream or budgetary savings that favorably impact the college’s operating budget will receive priority consideration. This priority consideration is not intended to exclude other projects key to the college’s mission.

3. The length of the financing term shall not exceed the useful life of the asset or project.

4. State appropriations, grants, designated reserves, and fund raising proceeds are to be used to fund a portion of all capital projects. Debt is to be used conservatively and strategically to preserve the college’s future borrowing capacity.

5. Maintain highest acceptable credit rating for the college by limiting overall debt to a level necessary to maintain acceptable credit rating.

6. Debt financed projects will be analyzed by the Chief Financial Officer and submitted to the President’s Cabinet for review. Long-term debt (more than one year) will require board approval.

7. The Board of Trustees will be provided with annual reports of all debt obligations and the status of the college’s financing capacity. Any changes to the college’s debt carrying capacity or debt portfolio will be reported to the board at the earliest scheduled board meeting.

Financial Ratios

The following ratios are used to analyze the college’s capacity to assume debt. The target values are determined by comparing the college’s values to its peer institutions that have the highest acceptable credit rating.

- The Viability Ratio: Expendable net assets (excluding those to be invested in plant)/Long-term debt.
  This ratio measures the capacity of the college to meet debt obligations should it have to repay them immediately. This ratio, at a minimum, should be no less than 100%. Ratios lower than this will seriously impact the college’s debt financing capacity; and make it vulnerable to economic downturns.

- The Debt Burden Ratio: Debt service /Total operating expenses.
  This ratio measures the percentage of debt service to the total operating expenses of the college. The portion of expenses allocated to meet debt service obligations
must be balanced with the colleges need to meet on-going operational requirements and strategic goals. The target ratio should be determined based upon satisfying total operating resources required to support program needs.

- The Primary Reserve Ratio: Expendable net assets (excluding those to be invested in plant) /Total operating expenses. This ratio measures the ability of the college to operate from existing assets independent of operations. Trend analysis indicates whether the College has increased its net worth in proportion to its rate of growth. A positive trend, an increasing ratio over time is indicative of financial strength. The college should have an increasing trend line to consider debt financed projects. Self-funding debt financed projects may be considered if all other financial considerations are acceptable.

Debt Financing Principles and Funding Options

1. The college will seek the lowest-cost financing source when obtaining debt. Primary sources for debt financing for the college are: HEFA (Massachusetts Health and Educational Facilities Authority), providing financing for capital projects; TELP (Tax Exempt Lease Purchase) agreements negotiated by the Commonwealth’s Operational Services Division (OSD); and privately financed loans or lines of credit.

2. External debt requirements will be coordinated to the extent possible to accommodate multiple projects and lower overall issuance costs. Internal loans or loans from the college’s foundation may provide bridge financing until debt is externally placed.

3. The maturity on a tax-exempt bond issue should not exceed the useful life of the financed asset, and never exceed the federally legislated limit of 125% of the assets useful life.

4. The college will consider refinancing debt when savings based on net present value is positive.

5. Call options on debt will be exercised when the net present value of savings are favorably compared to alternative investment opportunities.

6. The college may obtain fixed or variable rate financing. The use of variable rate financing may be utilized when advantageous and when short-term liquid assets can be pledged to hedge against interest rate risk.

7. The college will maintain procedures for conducting financial analysis, for obtaining legal analysis and opinions, and for monitoring compliance with state statures and bond covenants.
8. The Massachusetts Board of Higher Education approved “Debt Policy Guidelines” requires the college to formally adopt a debt policy. When approved by the Board of Trustees (Board) and as amended by the Board, the college shall file a copy with the Board of Higher Education.

Approved by the Board of Trustees
March 13, 2007