

CCS Administrative Procedure

5.20.03-A Use of Debt

Implementing Board Policy [5.20.03](#)

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1.0 Purpose

To effectively manage an appropriate level of debt in order to ensure adequate resources are available to meet debt service requirements of short-term and long-term debt indebtedness. This procedure applies to all debt incurred by CCS from all funding sources.

2.0 Limitations and Requirements

- 2.1 In accordance with RCW 28B.50.140(6) and with the approval of the State Board for Community and Technical Colleges (SBCTC), CCS may borrow money and issue and sell revenue bonds in accordance with the provisions of RCW 28B.10.300 through 28B.10.330 where applicable.
- 2.2 CCS shall not incur debt or borrow money which will cause the aggregate debt contracted by CCS to exceed that amount for which payments of principal and interest in any fiscal year would require CCS to expend more than seven percent of the average general operating revenues for the three immediately preceding fiscal years.
- 2.3 To ensure CCS follows state policies and procedures related to debt; a periodic review of outstanding obligations of CCS is prepared and a process is established for determining the maximum aggregate debt to be contracted by CCS.
- 2.4 Employees and/or departments of CCS are required to consult the district business office and to obtain the required authorizations prior to obligating CCS to financing contracts or other forms of indebtedness.

3.0 Definitions

- 3.1 Bonds. Bonds are long-term notes (debt instruments) that are issued under a formal legal procedure and secured by either a pledge of specific properties or revenues or by the general credit of the state. With appropriate authority from the SBCTC, CCS can utilize the following bond types for financing purposes: general obligation bonds, revenue bonds or refunding bonds. It has not been a historical practice of CCS to issue bonds in these categories.
- 3.2 Debt. Legal obligations of CCS, which have arisen from past transactions that will be liquidated in the future. The obligations are classified as current (short-term), payable within one year or less and from current assets or resources; or long-term, payments are required beyond the current year and from future resources.
- 3.3 Delegation of Authority. The CCS Delegation of Authority specifies the approval level required for procurement of equipment and real property acquisition. The procedure is available on the CCS Internet.
- 3.4 General Operating Revenues. Includes fiscal year revenue accounted for by CCS in the following accounts: general/special revenue account/operating, enterprise and internal services. The fiscal year revenue from these sources is reported annually in the Statement of Revenues, Expenditures, and Changes in Fund Balances.

- 3.5 Lease Purchase Agreements. A lease that transfers substantially all the benefits and risks inherent in the ownership of the property to CCS. By the end of the lease term, ownership of the leased property is transferred to CCS and the lease includes a bargain purchase option. Leases that represent acquisitions are classified as capital leases, and the related assets and liabilities are recorded in the financial records at the inception of the lease.
- 3.6 Certificates of Participation (COP). COP's are a mechanism to finance lease-purchase agreements. The Office of the State Treasurer (OST) administers the State's master lease purchase program. COP's are available for equipment, real estate acquisitions and construction. A COP from the OST or other financing contracts for real property acquisition or improvement requires explicit prior approval by the Legislature consistent with 39.94 RCW. Financing contracts/COP's for equipment leases and the Energy Conservation Program (ESCO) managed by the Department of General Administration do not require legislative or SBCTC approval. Approval for capital equipment leases and ESCO projects is granted in accordance with the CCS Delegation of Authority.

4.0 Calculation of Debt

By November 1 of each year, the district business office will:

- 4.1 Compute the amount required to pay principal of and interest on outstanding debt. In making this computation, all borrowed money represented by bonds, COP's, capital lease agreements, or other evidences of indebtedness which are secured by the full faith and credit of CCS will be added together to determine the total amount of debt outstanding.
- 4.2 Calculate the average general operating revenues for the three immediately preceding fiscal years.
- 4.3 Calculate seven percent (7%) of the average general operating revenues from paragraph 4.2.
- 4.4 Compare the amount required to make principal and interest payments in the fiscal year (4.1) with the amount calculated in paragraph 4.3. In the event the required principal and interest payments will require CCS to expend more than the amount determined in paragraph 4.3., the chief financial officer will recommend to the chancellor the necessary steps to correct the overage.
- 4.5 Present the result of the debt limit calculation and the schedule of debt/lease commitments outstanding in the Notes to the CCS Annual Financial Statements.
- 4.6 Example calculation:

4.1	Debt Schedule Fiscal YE 6/30/04	Principal Payments \$464,541	Interest Payments \$140,165	Total Payments Due \$604,706
4.2	Calculate Average General Operating Revenues	Include the three most recently completed fiscal years	General operating (excluding capital) + Enterprise + Internal Service = Total operating revenues	Estimated average for FY's 2003, 2002, 2001 is \$81,548,000
4.3	Determine Maximum Debt Limit	Calculate seven (7%) of amount in 4.2.		Example Result: \$5,708,360
4.4	Compare amount in 4.3 to 4.1			Analysis Result: Total payments due in 2004 are less than the calculated debt limit

5.0 Related Information

- 5.1 [1.40.01-A](#) Delegation of Authority
- 5.2 RCW [28B.50.140](#), Board of Trustees – Powers and Duties
- 5.3 Chapter [28B.10 RCW](#), Colleges and Universities Generally

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