



AGENDA

BOARD GOVERNANCE COMMITTEE OF THE BOARD OF TRUSTEES

Committee Members

Trustee Carroll G. Robinson, Chair

Trustee Robert Glaser

Trustee Sandie Mullins

Alternate Member

Trustee Eva Loreda

**April 9, 2015
2:00 p.m.**

**HCC Administration Building
3100 Main, 2nd Floor Auditorium
Houston, Texas 77002**



Strategic Plan 2012-2015

Creating Opportunities for Our Shared Future
(Approved by the HCC Board of Trustees, June 22, 2012)

Mission

Houston Community College is an open-admission, public institution of higher education offering a high-quality, affordable education for academic advancement, workforce training, career and economic development, and lifelong learning to prepare individuals in our diverse communities for life and work in a global and technological society.

Vision

HCC will be a leader in providing high quality, innovative education leading to student success and completion of workforce and academic programs. We will be responsive to community needs and drive economic development in the communities we serve.

Strategic Initiatives

- Initiative #1: Increase Student Completion
- Initiative #2: Respond to Business and Industry
- Initiative #3: Develop 21st Century Learners
- Initiative #4: Support Faculty/Staff Professional Development and Student Leadership
- Initiative #5: Support Innovation
- Initiative #6: Support Entrepreneurialism
- Initiative #7: Leverage Partnerships

**NOTICE OF A MEETING OF THE
BOARD GOVERNANCE COMMITTEE
OF THE BOARD OF TRUSTEES**

HOUSTON COMMUNITY COLLEGE

April 9, 2015

Notice is hereby given that a Meeting of the Board Governance Committee of the Board of Trustees of Houston Community College will be held on Thursday, the ninth (9th) day of April, 2015 at 2:00 p.m., or after, and from day to day as required, at the HCC Administration Building, 3100 Main, 2nd Floor Auditorium, Houston, Texas 77002. The items listed in this Notice may be considered in any order at the discretion of the Committee Chair and items listed for closed session discussion may be discussed in open session and vice versa as permitted by law. Actions taken at this Meeting do not constitute final Board action and are only Committee recommendations to be considered by the Board at the next Regular Board meeting.

I. Call to Order

II. Topics for Discussion and/or Action:

- A. Modification to Board Bylaws: Article E, Sections 3 and 4; Article G, Sections 5 and 7.
- B. Modification to Board Policy B:1.9-Debt Management Policy.
- C. Update on Compliance Plan.

III. Adjournment to closed or executive session pursuant to Texas Government Code Sections 551.071; 551.072 and 551.074, the Open Meetings Act, for the following purposes:

A. Legal Matters

- 1. Consultation with legal counsel concerning pending or contemplated litigation, a settlement offer, or matters on which the attorney's duty to the System under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with the Texas Open Meetings Laws.

B. Personnel Matters

- 1. Deliberate the appointment, employment, evaluation, reassignment, duties, discipline or dismissal of a public officer or employee, or to hear complaints or changes against an officer or employee, unless the officer or employee who is the subject of the deliberation or hearing requests a public hearing.

C. Real Estate Matters

1. Deliberate the purchase, exchange, lease, or value of real property for Agenda items if deliberation in an open meeting would have a detrimental effect on the position of the System in negotiations with a third person.

IV. Additional Closed or Executive Session Authority

If, during the course of the meeting covered by this Notice, the Board should determine that a closed or executive meeting or session of the Board should be held or is required in relation to any items included in this Notice, then such closed or executive meeting or session as authorized by Section 551.001 et seq. of the Texas Government Code (the Open Meetings Act) will be held by the Board at that date, hour and place given in this Notice or as soon after the commencement of the meeting covered by the Notice as the Board may conveniently meet in such closed or executive meeting or session concerning:

Section 551.071 – For the purpose of a private consultation with the Board's attorney about pending or contemplated litigation, a settlement offer, or matters on which the attorney's duty to the System under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with the Texas Open Meetings Laws.

Section 551.072 – For the purpose of discussing the purchase, exchange, lease or value of real property if deliberation in an open meeting would have a detrimental effect on the position of the governmental body in negotiations with a third person.

Section 551.073 – For the purpose of considering a negotiated contract for a prospective gift or donation to the System if deliberation in an open meeting would have a detrimental effect on the position of the System in negotiations with a third person.

Section 551.074 – For the purpose of considering the appointment, employment, evaluation, reassignment, duties, discipline or dismissal of a public officer or employee or to hear complaints or charges against a public officer or employee, unless the officer or employee who is the subject of the deliberation or hearing requests a public hearing.

Section 551.076 – To consider the deployment, or specific occasions for implementation of security personnel or devices, or a security audit.

Section 551.082 – For the purpose of considering discipline of a student or to hear a complaint by an employee against another employee if the complaint or charge directly results in a need for a hearing, unless an open hearing is requested in writing by a parent or guardian of the student or by

Houston Community College
Board Governance Committee – April 9, 2015

the employee against whom the complaint is brought.

Section 551.084 – For the purpose of excluding a witness or witnesses in an investigation from a hearing during examination of another witness in the investigation.

Should any final action, final decision, or final vote be required in the opinion of the Board with regard to any matter considered in such closed or executive meeting or session, then such final action, final decision, or final vote shall be at either:

- A. The open meeting covered by this Notice upon the reconvening of the public meeting, or
- B. At a subsequent public meeting of the Board upon notice thereof, as the Board shall determine.

V. Reconvene in Open Meeting

VI. Adjournment

Certificate of Posting or Giving of Notice

On this 6th day of April, 2015, at or before 2:00 p.m., this Notice was posted at a place convenient to the public and readily accessible at all times to the general public at the following locations: (1) Administration Building of the Houston Community College, 3100 Main, First Floor, Houston, Texas 77002; (2) the Harris County's Criminal Justice Center, 1201 Franklin, Houston, Texas 77002; (3) the Fort Bend County Courthouse, 401 Jackson, Richmond, Texas 77469; and (4) the Houston Community College website, www.hccs.edu. The Houston Community College's Fort Bend County public meeting notices may be viewed after hours (*i.e.* between the hours of 5:30 p.m. and 7:30 a.m.) on the kiosk located on the west side of the new Fort Bend County Courthouse (the "William B. Travis Building"), located at 309 South Fourth Street, Richmond, Texas 77469.

Sharon R. Wright, Manager
Board Services

ACTION ITEM

Meeting Date: April 9, 2015

Committee: *Board Governance*

ITEM NO.	ITEM TITLE	PRESENTER
A	Modification to Board Bylaws: Article E, Sections 3 and 4 Article G, Sections 5 and 7	Derrick Mitchell

RECOMMENDATION

Discuss and/or approve proposed revisions to Board bylaws: Article E-Personnel Appointed By and Reporting Directly to the Board; Article G-General Board Meetings regarding Sections 5 and 7.

COMPELLING REASON/RATIONALE

The modification to Article E, Section 3 is to clarify the reporting requirements of the External and Internal Auditors, and to clarify the Board's responsibility for retaining the External Auditor. The modification to Section 4 is to clarify the Board's responsibility for retaining Board Counsel.

The modification to Article G, Section 5 is to ensure the bylaws reflect the AG's opinion that junior/community colleges require a majority of the total membership of the body (five votes) in order to act. The modification to Article G, Section 7 is to allow the board chair and/or chancellor to pull an item from the agenda with the exception being an item that is requested by the written request of three board members.

STRATEGIC GOAL ALIGNMENT

Strategic Initiative: Support Innovation

Attachment Title(s): **Proposed Modification to Bylaws-Articles E and G**

This item is applicable to the following:

Central Coleman Northeast Northwest Southeast Southwest 3100

BYLAWS OF THE BOARD OF TRUSTEES OF THE HOUSTON COMMUNITY COLLEGE

Adopted January 1, 2010

Amended June 29, 2010

Amended September 23, 2010

Amended December 2, 2010

Amended November 17, 2011

Amended December 15, 2011

Amended June 21, 2012

Amended June 24, 2014

Table of Contents

Preface

Mission

ARTICLE A: ETHICS

- Sec. 1. Purpose**
- Sec. 2. Distribution Policy**
- Sec. 3. Applicability**
- Sec. 4. Code of Conduct** *(Amended December 2, 2010; November 17, 2011)*
- Sec. 5. Prohibited Communications/Political Contributions**
*(Amended September 23, 2010, November 17, 2011, December 15, 2011,
June 21, 2012)*

TABLE OF CONTENTS

(continued)

- Sec. 6. Limits on Repayment of Personal Loans** *(June 21, 2012)*
- Sec. 7. Prohibited Benefits** *(Amended September 23, 2010)*
- Sec. 8. Political Activities**
- Sec. 9. Misuse of Official Information**
- Sec. 10. Mechanisms for Enforcement** *(Amended November 17, 2011)*
- Conflict of Interest Certification Form** *(Added September 23, 2010;
Amended November 17, 2011))*

ARTICLE B: POWERS OF THE BOARD

- Sec. 1. Authority**
- Sec. 2. Delegation of Authority in Emergency**
- Sec. 3. Policy Direction**
- Sec. 4. Board Leadership**

ARTICLE C: ELECTIONS

ARTICLE D: OFFICERS OF THE BOARD

- Sec. 1. Election**
- Sec. 2. Chair**
- Sec. 3. Vice Chair**
- Sec. 4. Secretary**

ARTICLE E: PERSONNEL APPOINTED BY AND REPORTING DIRECTLY TO THE BOARD

- Sec. 1. Appointments**
- Sec. 2. Chancellor**
- Sec. 3. External Auditor and Internal Auditor**
- Sec. 4. Board Counsel and General Counsel**
- Sec. 5. Financial Advisor**

ARTICLE F: COMMITTEES

- Sec. 1. General**

TABLE OF CONTENTS
(continued)

- Sec. 2. Appointed Committees**
- Sec. 3. Committee of the Whole Meetings** *(Amended June 24, 2014)*
- Sec. 4. Standing Committees** *(Amended June 29, 2010)*
- Sec. 5. Special/Ad Hoc Committees**
- Sec. 6. Appointments to Outside Entities**
- Sec. 7. Community Advisory Committees**

ARTICLE G: GENERAL BOARD MEETINGS

- Sec. 1. Open Meetings**
- Sec. 2. Definitions**
- Sec. 3. Time and Location** *(Amended December 2, 2010)*
- Sec. 4. Notice**
- Sec. 5. Voting**
- Sec. 6. Order of Business**
- Sec. 7. Agenda**
- Sec. 8. Rules of Order**
- Sec. 9. Minutes and Recordings**
- Sec. 10. Special Meetings**
- Sec. 11. Closed Meetings/Executive Session**
- Sec. 12. Prohibitions**
- Sec. 13. Citizen Participation**
- Sec. 14. Disruption**
- Sec. 15. Social Functions and Related Events**

ARTICLE H: BOARD OPERATIONS

- Sec. 1. Evaluation**
- Sec. 2. Efficiency**
- Sec. 3. Expenditures** *(Amended September 23, 2010; Amended December 13, 2012)*
Board Account for Community Affairs Request Form
- Sec. 4. Public Statements and the Media**
- Sec. 5. Training** *(Amended September 23, 2010; Amended November 17, 2011)*

TABLE OF CONTENTS
(continued)

- Sec. 6. Self-Assessment of the Board**
- Sec. 7. Requests for Documents**

Article E: Personnel Appointed By and Reporting Directly to the Board

Responsible Board Committee: Board Governance

Responsible Department/Group: Board of Trustees

1. APPOINTMENTS. All appointments by the Board shall be made in accordance with Board policy and state law.

2. CHANCELLOR. The Chancellor shall be the chief executive officer of the College and as such, shall recommend the organizational plan for the College as well as candidates for administrative and faculty positions within the College. The contract for this position shall have a limit of four years. The Board shall evaluate the Chancellor on an annual basis. The Chancellor has a fiduciary duty to the College, including, but not limited to, the duty to:

- a. Developing a qualified administrative organization and providing the College with academic and fund-raising leadership.
- b. Preparing the annual budget and submitting it to the Board for approval.
- c. Establishing administrative relationships among members of the College community.
- d. Preparing and approving the curriculum.
- e. Appointing campus committees, as needed.
- f. Preparing the agenda for Board meetings in coordination with the Board Chair and making regular reports to the Board regarding the status of the College.
- g. Promoting College political effectiveness at the state and local levels.
- h. Supervising the development and implementation of a system to evaluate faculty and staff.
- i. Assisting the Board in policy development, its yearly self-assessment, and meeting its own training requirements.
- j. Forging a relationship of mutual respect with each Trustee.
- k. Understanding each district of the College and its educational needs.

- l. Enforcing fiduciary and academic accountability of the College to the general public.
- m. Promoting College unity at all levels, emphasizing equality, diversity, and respect for all individuals.
- n. Interpreting the College to the community.
- o. Providing the Trustees with important information in a timely manner before all others and having background information and research compiled on issues of particular importance to the Board, with sufficient time for study by Trustees before a vote.
- p. Serving as the official spokesperson for the College.
- q. Maintaining open channels of communication throughout the College.
- r. Handling employee disciplinary issues, including termination when appropriate.
- s. In the event of a catastrophe, emergency, or natural disaster affecting the College, contracting for the replacement, construction, or repair of College equipment or facilities if emergency replacement, construction, or repair is necessary for the health and safety of College students and staff.
- t. Enhancing the image and well-being of the College.

3. EXTERNAL AUDITOR AND INTERNAL AUDITOR.

External Auditor. The External Auditor shall be an independent and objective party to provide advice to the Board. The External Auditor shall be appointed by the Board, ~~upon the recommendation of the Chancellor,~~ and shall report directly to the Board Audit Committee, with access to the Chancellor. The Board will periodically evaluate the performance of the External Auditor and may dismiss or assign a new External Auditor at any time with or without cause. All engagement letters with the External Auditor shall be signed by the Board Chair. The Board shall select an auditing firm for a designated period, not to exceed five (5) years, and shall rotate External Auditors every five (5) years.

- a. An auditing firm selected by the Board as External Auditor is not eligible to submit a proposal immediately following any period during which it was engaged by the Board as External Auditor. The selected External Auditor may not serve simultaneously as the Internal Auditor.
- b. The Board shall outline its expectations regarding the annual financial statement audit and performance audit, if requested, and as may be directed by the Board. The Board also may arrange for self-requested audits to perform specific audit services. The External Auditor shall evaluate all financial operations of the College and prepare reports to the Board. Among the duties of the External Auditor are:
 - 1) to perform audit activities necessary to assure that College resources are being properly managed and accounted for, that the College has effective and adequate internal controls, and that internal operating colleges are reliable.
 - 2) to assure that the College is complying with approved policies and statutory requirements.
 - 3) to develop an annual audit plan for the College to present to the Chancellor and the Audit Committee of the Board for approval.
 - 4) to perform all duties in accordance with the Standards for the Professional Practice of Internal Auditing, the Code of Ethics, the Statements on Internal Auditing Standards, and the Statement of Responsibilities of Internal Auditing, each as established by the Institute of Internal Auditors.
 - 5) to meet regularly with the Board to review audits performed, audits in progress, and future audits, as requested by the Board.

The External Auditor is prohibited from providing non-audit services to HCC.

Internal Auditor. The Internal Auditor shall provide advice to the Chancellor, ~~and~~ shall work under the day to day supervision of the Chancellor, and shall report directly to the Board Audit Committee. The Internal Auditor shall be selected by the Board from

candidates approved and provided by the Chancellor. The Chancellor shall recommend three (3) names to the Board as the finalists, each with a minimum of 10 years of experience as a full-time Auditor. The Internal Auditor shall be evaluated by the Chancellor after consultation with the Audit Committee and may only be dismissed by the Chancellor after obtaining approval of the Board. Duties of the Internal Auditor are to:

- a. Coordinate audit efforts with those of the External Auditor.
- b. Perform all duties in accordance with the Standards for the Professional Practice of Internal Auditing, the Code of Ethics, the Statements on Internal Auditing Standards, and the Statement of Responsibilities of Internal Auditing, each as established by the Institute of Internal Auditors.
- c. Meet regularly with the Board and the Audit Committee to review audits performed, audits in progress, and future audits.
- d. Conduct independent, protective and constructive audits so as to review effectiveness of controls, financial records, and operations.
- e. Analyze data obtained for evidence of deficiencies in controls, duplication of effort, or lack of compliance with College policies and procedures.
- f. Prepare reports and make recommendations on findings to the Chancellor and the Board.
- g. Provide audit education and Internal Control training.
- h. Offer advisory services, Control Self-Assessment (CSA) services, and workshops.

4. BOARD COUNSEL AND GENERAL COUNSEL.

Board Counsel. The Board Counsel shall provide legal advice to the Board. The Board Counsel shall be appointed by the Board ~~(upon recommendation of the Chancellor)~~, shall report directly to the Board (with access to the Chancellor), and may be dismissed or reassigned by the Board without cause. The Board Counsel shall represent the College in all assigned legal matters. The Board Counsel shall attend all Board and Board committee meetings. Duties of the Board Counsel include:

- a. Provide advice and counsel to the Board.
- b. Maintain the Board bylaws and certain Board policies and procedures, and recommend amendments, as needed.
- c. Handle assigned legal matters for or on behalf of the College, such as preparation of legal opinions as requested by the Board or the Chancellor.
- d. Render legal services in connection with assigned legal matters.

- e. Perform any other legal services as may be required by the Board or requested by the Chancellor.

Upon recommendation of the Chancellor, or on its own motion, the Board may employ other outside counsel to address legal matters in special situations. The outside counsel shall report directly to the Board, with access to the Chancellor.

General Counsel. The General Counsel shall provide legal advice to the Chancellor. The General Counsel shall be appointed by the Board, upon recommendation of the Chancellor, and shall report directly to the Chancellor, with access to the Board. The General Counsel shall attend all Board and Board committee meetings. Duties of the General Counsel include:

- f. Provide legal advice and counsel to the Chancellor, administration and faculty.
- g. Maintain the College's policies and recommend amendments, as needed.
- h. Handle routine legal matters for or on behalf of the College.
- i. Perform other legal services as may be required by the Board or assigned by the Chancellor.

5. FINANCIAL ADVISOR. The Financial Advisor shall be appointed by the Board, shall report directly to the Board, with access to the Chancellor, and may be dismissed or reassigned by the Board without cause. The Financial Advisor shall offer guidance to the Board in all financial matters. Duties of the Financial Advisor include:

- a. Evaluating College indebtedness.
- b. Recommending asset allocation.
- c. Evaluating investment strategies.
- d. Evaluating acquisition strategies.
- e. Evaluating long and short term financial planning.

The Board shall select the Financial Advisor for a designated period, not to exceed five (5) years, and shall rotate Financial Advisors every five (5) years.

Article G: General Board Meetings

Responsible Board Committee: Board Governance

Responsible Department/Group: Board of Trustees

6. OPEN MEETINGS. The Board shall hold regular meetings for purposes of handling College business. All meetings shall be held in compliance with the Texas Open Meetings Act. Citizens are welcome to attend meetings of the Board. Trustees shall adhere to the Board Code of Conduct and promote Board Leadership at all times.

7. DEFINITIONS.

A "meeting" occurs when:

- a. A quorum of members of the Board deliberate with each other or with any other person; and
- b. Such quorum discusses, considers, or takes formal action on public business or public policy that the Board supervises or controls.

"Deliberation" means an exchange, verbal, electronic or otherwise, between a quorum of Board members (or between them and any other person) concerning any issue within the jurisdiction of the Board or any public business.

No deliberation that affects public business is allowed to take place in any setting other than a duly posted meeting of a quorum of Board members.

8. TIME AND LOCATION. Unless otherwise provided, the regular meeting of the Board shall be held on the third Thursday of each month at the HCC Building, 3100 Main Street. Such meetings may be recessed from day to day until the completion of business. The time for special and emergency meetings of the Board shall be as stipulated in the notice for the meeting.

9. NOTICE. Written notice of all meetings shall be posted at the central administration building and the website by the Board Services Office. Furthermore, notice shall be furnished for posting to the Harris County Clerk, the Fort Bend County Clerk, and upon request, to the media. Notice of all meetings shall provide for the possibility of a closed or executive session during an open meeting, as provided by law.

10. VOTING. Each Trustee's vote, or failure to vote, shall be recorded by name. Only Trustees present in person may vote. Absent Trustees may listen to the proceedings by electronic media, but may not vote on the proceedings. No proxy votes shall be allowed. Other than situations in which a two-thirds vote is required, a majority vote of the total membership of the Board will be required in order for the Board to act.

11. ORDER OF BUSINESS. The Board Chair and the Chancellor shall decide the order of business for meetings. (See HCC POLICY MANUAL)

12. AGENDA. At the direction of the Board Chair, the Chancellor shall prepare and present an agenda at least 7 calendar days prior to the regular Board meeting, having followed the agenda preparation process established by the Board. An item shall be added to the agenda by the written request of three (3) Trustees submitted to the Chancellor or Board Chair at least seven (7) days prior to the meeting.

Either the Board Chair or the Chancellor, at his or her discretion, may pull any item noticed for discussion and/or action from the agenda without further action by the Board, unless that item has been added by the written request of three (3) Trustees, in accordance with the procedures outlined above.

13. RULES OF ORDER. Robert's Rules of Order (most current edition) shall constitute the rules of procedure applicable to all meetings of the Board, when not in conflict with any provisions of law or these bylaws. The Board may suspend the rules, as needed, by a two-thirds vote of the composition of the full board.

14. MINUTES AND RECORDINGS. The Board shall prepare and keep minutes and/or make a tape recording of each open meeting. The minutes and tapes are public records and shall be available for public inspection and copying upon request to the Board office. Any person in attendance can make an audio or video recording of any or all of an open meeting, subject to reasonable rules adopted by the Board to maintain order.

15. SPECIAL MEETINGS. Special meetings of the Board may be called by either the Chair at his/her own discretion, or by the independent requests of three (3) Trustees who must call for the meeting in writing, specifying the date, time, place, and purpose of the meeting. Special meetings must be duly posted.

16. CLOSED MEETINGS/EXECUTIVE SESSION. Trustees, employees and agents of the College shall not divulge to any person the substance of matters discussed at any closed meeting, except as otherwise required or allowed by law. Closed meetings shall be held as allowed by law to have discussions and deliberations of College matters that cannot be made public. A further objective would be to protect the attorney-client privilege recognized by law.

17. PROHIBITIONS. No Board member shall knowingly call or aid in calling or organizing a closed meeting that is not permitted under the Open Meetings Act. No Board member shall knowingly close or aid in closing a regular meeting to the public (except as permitted under the Open Meetings Act). No Board member shall participate in a closed meeting that is not permitted under the Open Meetings Act.

18. CITIZEN PARTICIPATION. The Board shall provide opportunities at its meetings for citizens to address the Board, but shall impose reasonable restraints on the number, length, and frequency of presentations, so long as it does not unfairly discriminate among views seeking expression.

19. DISRUPTION. It is a criminal offense for a person, with intent to prevent or disrupt a lawful meeting, to substantially obstruct or interfere with the meeting by physical action or verbal utterance. The Board may immediately remove from the meeting any person causing a substantial disruption.

20. SOCIAL FUNCTIONS AND RELATED EVENTS. The Board may congregate for social functions, such as meals or festivities, but shall refrain from discussing issues under consideration by the Board for a Board vote. Trustees may gather in a quorum at a social function unrelated to the public business of the College, or at a regional, state or national convention or workshop, if formal action is not taken. Such gatherings are not "meetings" under the law and no public notice is required to attend such gatherings. (Tex. Govt. Code 551.001).

ACTION ITEM

Meeting Date: April 9, 2015

Committee: *Board Governance*

ITEM NO.	ITEM TITLE	PRESENTER
B	Modification to Board Policy B:1.9-Debt Management Policy	Dr. Cesar Maldonado Teri Zamora E. Ashley Smith

RECOMMENDATION

Modify Policy B:1.9-Debt Management Policy to allow for private placement of long-term debt.

COMPELLING REASON/RATIONALE

An alternative currently exists to privately place long term debt with financial institutions, which was not considered when the Debt Management Policy was approved in June 2013. Dependent upon market conditions and other circumstances, there are instances where this alternative can be more favorable for the College in terms of speed, simplicity, and/or cost than conducting a sale in the open market.

DESCRIPTION OR BACKGROUND

Working with the college's Financial Advisor, an equitable method has been designed to solicit quotes from financial institutions for the issuance of long term debt. An amendment is necessary to add private placement as an additional method of long-term debt financing.

FISCAL IMPACT

This method is recommended in instances of anticipated reduced interest rates and fees, or where other circumstances warrant.

LEGAL REQUIREMENT

None

STRATEGIC GOAL ALIGNMENT

Strategic Initiative: Support Innovation

Attachment Title(s): **Policy B.1.9-Debt Management Policy**

This item is applicable to the following:

Central Coleman Northeast Northwest Southeast Southwest 3100

B:1.9 Finance and Operations Debt Management

Responsible Department: Finance and Accounting

Date Approved/Amended: June 25, 2013

B:1.9 Debt Management

The purpose of the Houston Community College (the “System”) Debt Management Policy is to establish and maintain well-defined debt management guidelines for issuing new debt, as well as managing outstanding debt. This Policy will allow the System to sustain a strong debt management program, achieve the lowest borrowing costs and maintain the greatest management flexibility.

The System’s Debt Management Policy applies to all debt instruments issued by the System or secured with revenues of the System (PFC bonds) regardless of the purpose for which issued or the funding source for repayment. These instruments include but are not limited to General Obligation Bonds, Maintenance Tax Notes, Contractual Obligations, Revenue Bonds and Lease Revenue Bonds.

B:1.9.1 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

B:1.9.2 Available Borrowing Methods

The System can utilize 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 the System to issue bonds for the construction, acquisition, and equipment of school buildings and the purchase of necessary sites for school buildings. The System 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 never exceed 50 cents on the \$100 valuation of taxable property in the System. The combined rate for bond taxes and maintenance taxes shall never exceed the aggregate of \$1 on the \$100 valuation of taxable property in the System. 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 be redeemed before maturity. The bonds require voter approval to be issued (§ 130.122 (b)) and the elections must be conducted on uniform election dates in May and November.

- B. Maintenance Tax Notes (“MTN”)** - The System may pledge any available funds of the System, including the proceeds of its maintenance tax, to secure negotiable maintenance tax notes under § 45.108 and §130.084, Texas Education Code. The proceeds of these notes may be used for any capital 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% 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 issuance date. Voter approval is not required.
- C. Contractual Obligations** - The System is authorized to incur contractual obligations under Chapter 271, Local Government Code to pay for 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.
- D. Lease Revenue Bonds** - The System has formed a Public Property Finance Corporation under Chapter 303, Local Government Code. This corporation has the authority to issue bonds to construct any necessary facilities for the System without an election. These bonds are secured by lease payments, payable from any lawfully available funds of the System that are subject to annual appropriations.
- E. Revenue Bonds (Senior Lien and Junior Lien)** - Under § 130.123, Texas Education Code, the System 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 pledge of certain Pledge Revenues, as defined and provided in the board resolution, which Pledged Revenues include General Fees, Laboratory Fees, Miscellaneous Fees, Out-of- District Fees, Technology Fees, Continuing Education Fees, Tuition (not

exceeding 25% of total tuition collection), and any other fees, revenues, or receipts of the System. Voter approval is not required.

- F. Refunding Bonds** – Chapter 1207, Texas Government Code, authorizes school districts to refund or refinance all or any part of the System'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. Voter approval is generally not required.

B:1.9.3 Debt Financing Guidelines

The System will consider all possible debt structures which, allow for flexibility in responding to future needs, efficiently utilize 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 System's legal, financial and debt market capacities.
- B.** Debt Defined – The creation of debt occurs when a governing body incurs a financial obligation that is over a period greater than the current year.
1. Cash Flow Financings – Cash flow financings 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 notes are issued. Tax Anticipation Notes 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 may be 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. Depending upon the location of the facilities, one or more of the following options may apply:

- 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 System’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 System’s Financial Advisor, architects and other professionals. General obligation bonds are intended to provide long-term financing for facilities in the System’s taxing jurisdiction.

While General Obligation Bonds are the preferred method for the System to finance its CIP, it is impractical to conduct a bond election for each project individually. As such, the System will consider alternate financing methods for projects that are located within either the taxing jurisdiction or service area of the System.

- 2. Lease Revenue Bonds** - Capital requirements for the construction, acquisition, and equipping of buildings, and the purchase of necessary sites for buildings will be identified through the System’s Master Planning activities. If the System needs a new facility within its taxing jurisdiction and it is not practical to hold a bond election for this single project, then the System will request that the PFC finance the facility.
- 3. Revenue Bonds (Senior Lien and Junior Lien)** - Capital requirements for the construction, acquisition, and equipping of buildings, and the purchase of necessary sites for buildings will be identified through the System’s Master Planning activities. Tax supported Bonds can only be issued for projects within the System’s taxing jurisdiction; therefore Revenue Bonds will be issued primarily for projects within the System’s service area but outside the taxing jurisdiction.
- 4. Debt Refunding** – The refinancing and/or restructuring of debt are valuable debt management tools used to provide the System 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 refunding transactions may be considered if they produce at least a 3% net present value savings of the par value of the refunded bonds. Advance refunding transactions may be

considered when the net present value savings as a percentage of the par amount of refunded bonds is at least 4%. These savings thresholds must be confirmed by the System's Financial Advisor and be based upon the same maturity schedule as existing debt.

5. **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 System at their discretion at specified future intervals. As a general rule, some rating agencies recommend that variable rate debt not exceed 25% of total bonds outstanding, although other factors may affect their evaluation of the amount they regard as acceptable. The System may consider issuing variable rate bonds, as variable short-term interest rates are historically lower than long-term fixed rates. Total variable debt will not exceed 20% of the System's total outstanding debt.

E. Restrictions / Limitations of Debt Issuance:

1. **Maintenance Tax Notes Limitations** – The total amount of Maintenance Tax Notes outstanding may not at any time exceed 75% 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 \$0.50 per \$100 of taxable assessed valuation.
2. **General Obligation Bonds Limitations** – The System will evaluate debt limitations in developing debt issuance plans. The System is authorized to issue general obligation bonds and levy taxes for repayment subject to voter approval of a proposition under § 130.122(b), Texas Education Code. This section provides for a maximum tax levy of \$0.50 per \$100 of taxable valuation of property in the System for the support of System bonded indebtedness.
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 System 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 System's overall financial objectives and in consideration of the useful life of the project and dedicated repayment revenue sources. The System will structure its debt with four primary goals: 1) to ensure the earliest possible maturity of the bonds, 2) matching or improving upon the Interest & Sinking (I&S) tax rate

assumptions and projections as discussed with the citizens of the System 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) maintain or improve the System's bond ratings.

5. **Debt Ratios** – The System will also evaluate debt affordability ratios in developing debt issuance plans:
 - a. Debt per Capital (Debt as a % of population service area)
 - b. Debt per Student (Debt as a % of enrollment)
 - c. Debt per Market Value (Debt as a % of net assessed value)
 - d. Debt per Repayment Source
 - e. Debt Service as a % of Budget Expenditures

F. Debt Issuance Process:

1. **Preferred Method of Sale** – The System will sell bonds through negotiated transactions with a preselected team of underwriters, or via competitive sale featuring sealed bids. In a competitive sale, bonds are marketed to a wide spectrum of investment banking (underwriting) firms. Their bids are submitted at a specified time. The underwriter is selected based on the best bid (lowest true interest cost).

For negotiated sales, the System 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 Financial Advisor will set criteria deemed appropriate for the evaluation of underwriter proposals and make a recommendation to System staff based on such criteria. After review and discussion of the proposals and selection criteria by the Board Finance Committee and the Board of Trustees, the Board will select one or more underwriters that it believes will provide the System with the lowest possible true interest cost.

2. [Private Placements - Private placements are sold directly to financial institutions. These may be short, medium or long-term, fixed or floating rate. Private placements may be used in lieu of the preferred methods of sale for financing specific assets or programs or refunding of existing debt, when the private placement provides reasonably comparable terms, has a reasonably acceptable structure, and circumstances warrant.](#)

3. External Financial Professionals:

- a. **Financial Advisor** – The Financial Advisor will work with System staff to:
 - Insure that the System's bonds are issued at the lowest possible interest cost and are structured in accordance with the System's financing guidelines

- Assist with credit enhancements
- Evaluate the bids submitted and recommend that they be accepted or rejected
- Review draft closing documents and monitor the closing process
- Assist in the preparation of and submit the System'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 Bond Counsel will:

- Certify that the System has the legal authority to issue bonds
- Prepare required orders, resolutions, and tax certificates
- Work with the U.S. Department of Justice-Voting Rights Section to obtain approval of all elections
- 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
- Represent the System in negotiations related to the issuance of debt
- Coordinate the closing transactions

c. Paying Agent / Registrar – The 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 System and remit to bondholders
- Represents bondholders in case of default

d. Rating Agencies – The System 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 System'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.

4. Timing of Sales – The Financial Advisor will work with the Chief Financial Officer, the Treasurer and Deputy Treasurer to insure that bond proceeds are available for projects prior to the execution of construction or purchase contracts.

5. **Bond Rating Goals** – The System will strive to maintain excellent bond ratings through:
 - a. Strong financial management practices
 - b. Timely disclosure of annual financial information including the Annual Financial Report prepared by management and attested to by the external auditors
 - c. Maintaining good relationships with bond rating agencies including site visits or meetings in person when required

6. **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 System 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 System's bonds. The System will work with its Financial Advisor to prepare and file the annual report with each nationally recognized municipal securities information repository (NRMSIR).

B:1.9.4 Management of Bond Proceeds

When bonds are issued, the proceeds are deposited in various accounts, which may include a construction fund, 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 the System's Investment Policy, the Public Funds Investment Act (PFIA) (Texas Government Code 2256), the Public Funds Collateral Act (Texas Government Code 2257), federal and state laws according to the cash flow schedule for capital projects. The Financial Advisor may not bid on investment products.

The System 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 System 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 System reasonably expects that 85% 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 be either invested at a yield not "materially higher" or make yield restriction payments,

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.

B:1.9.5 Management of Debt Service Fund

The System has created or continued a debt service fund for each issuance (the “Debt Service Fund”) and the proceeds from all revenues or taxes levied, assessed, and collected for and on account of bonds are to be deposited in such Fund. The System expects that taxes levied, assessed and collected for and on account of voted debt will be sufficient each year to pay such debt service.

- A. Interest Earnings** – Interest earnings in the Debt Service Fund for general obligation bonds 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 System shall target a minimum debt service fund balance of 25% of the annual debt service requirements on all outstanding debt issuance.
- C. I&S (Interest & Sinking) Tax Rate:**
 - 1. Stabilization** – The System will call or defease bonds as required by the bond order. The System may also call or defease additional bonds, if any, in order to stabilize the I&S tax rate or the total tax rate.
 - 2. Increases** – When required, tax rate increases associated with the issuance of new bonds will be implemented in the current and succeeding fiscal year.

B:1.9.6 Compliance

- A. Compliance with Statutory Regulations** – The System 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 bond-related money. The rebate rules are designed to require the local governmental issuer to pay to the United States certain amounts of “arbitrage profit” that may be earned under the investment rules. Both sets of rules require compliance. The System 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 System will (a) maintain

records regarding the investment of the “gross proceeds” of bonds as may be required to calculate such “rebateable arbitrage earnings” separately from records of amounts on deposit in the funds and accounts of the System which are allocable to other bond issues of the System, (b) calculate at such intervals as may be required by applicable Regulations, the amount of “rebateable 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 System 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 System has contracted with a third-party arbitrage firm to insure that the System maintains compliance with arbitrage rules.

C. Annual 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. 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 System’s bonds and insures that the System has the best results when accessing the capital markets.

B:1.9.7 Reporting to Committee / Board

The Chief Financial Officer and the Financial Advisor will provide summary debt management reports to the Board Finance Committee at a minimum annually or with every bond sale. The Debt Management Policy will be reviewed on an annual basis and updated and approved by the Board.

REPORT ITEM

Meeting Date: April 9, 2015

Committee: *Board Governance*

ITEM NO.	ITEM TITLE	PRESENTER
C	Update on Compliance Plan	Dr. Cesar Maldonado Valerie Simpson

DISCUSSION

Provide an update on the development of a system-wide compliance plan and supporting elements in furtherance of a centralized compliance program.

DESCRIPTION OR BACKGROUND

A compliance plan will be implemented in order to comply with applicable federal, state, and local statutory requirements. To meet these requirements and to empower employees to understand both their obligations under the law and expectations, the College will adopt a compliance plan which will identify specific fundamental elements of compliance such as: the redevelopment and oversight of written board policies and supporting procedures; training, communication and education; internal oversight and monitoring; enforcement and corrective action.

One of the many objectives for a compliance plan is to avoid and alternatively, to reduce the potential liability and exposure of the College for non-compliance with governing laws and policies which, otherwise could result in the external oversight and monitoring of governing agencies or other penalties. Another objective for a system wide compliance plan is the improvement of efficiency and productivity of the work force and morale of employees through increased accountability. In furtherance of these objectives, the Compliance Officer will assess the College's network of policies and procedures, risk management strategies, controls, and processes, as articulated by the College, to assure their effectiveness and proper administration in accordance with governing law and industry best practices.

Through the implementation of specific compliance elements, a centralized compliance program will uniformly represent and mirror the overall mission and strategic goals of the College and widely assist in the transparency and articulation of HCC's responsibility and integrity as a fiduciary and steward of ethics.

FISCAL IMPACT

Not available at this time.

STRATEGIC INITIATIVES ALIGNMENT

Strategic Initiative: Support Innovation.

Attachment Title(s): **HCC Office of General Counsel Compliance Plan- Draft**

This item is applicable to the following:

Central Coleman Northeast Northwest Southeast Southwest 3100

HCC OFFICE OF GENERAL COUNSEL COMPLIANCE PLAN

Compliance Element	Objective	Specific Steps	Individual(s) Responsible	Timetable	Status
General	Develop Compliance Mission Statement, Goals and Objectives, Plan	<ul style="list-style-type: none"> • Brainstorm what is important to/needed from Compliance within General Counsel office and how it impacts/reflects the Chancellor's goals/outcomes • Develop Compliance Action Plan/charter to outline goals and objectives • Adopt the plan by Chancellor's Council and present to the Board by Summer 2015 • Develop Compliance infrastructure and draft operational manual 	General Counsel; Chancellor	February 2015	In progress; Draft completed.
Evaluation	Evaluate all of the policies and procedures to ensure they are engaged and functioning	<ul style="list-style-type: none"> • Compile, reconcile and review current policies for compliance/consistency with applicable law (see Compliance Matrix) • Update policies online as needed • Define and assess risk areas. • Determine/asses methods for improvement and/or functionality of procedures and training (webinar trainings?); compliance software? 	General Counsel	May 2015	In progress; collaboration with Board Counsel
Communication /Training	Ensure that college constituents are knowledgeable re compliance function of General Counsel.	<ul style="list-style-type: none"> • Training re policies /procedures and updates to procedures (work with client department responsible for training staff with obligations under policy/procedure) • Ensure lines of communication are open and problems resolved immediately • Develop a newsletter featuring compliance updates for monthly/quarterly distribution to HCC departments (i.e.: developments in the law, proposals, amendments, upcoming reporting dates). • Develop Compliance website (i.e. , as a link from General Counsel site • Hotline for reporting noncompliance or other issues 	General Counsel; Chancellor	May-August 2015	
Standards of Conduct/Enforcement	Develop and implement a System-wide Standard of Conduct	<ul style="list-style-type: none"> • Survey various HCC departments and asses existence or lack of compliance with various HCC policies and regulations • Draft a Standard of Conduct to mitigate current and potential risk areas. • Identify/assess methods of enforcement for compliance with standards, policy and procedure. 	General Counsel	April – June 2015	

HCC OFFICE OF GENERAL COUNSEL COMPLIANCE PLAN

Executive Compliance Committee	Develop committee of department leaders to support and administer compliance objectives	<ul style="list-style-type: none"> · Identify key stakeholders for committee participation · Initiate compliance discussion and strategize how committee could be used to further long-term goals · Meet quarterly to update past compliance concerns and assess potential compliance risks. 	General Counsel; Chancellor	June 2015	
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Limitations:

- Support staff
- Other assigned duties and obligations re Office of General Counsel
- Resources
- Cooperation and timeliness of responsible departments

DRAFT