THE TEXAS STATE UNIVERSITY SYSTEM

DEBT MANAGEMENT POLICY

November 2016
**Purpose:** This policy is to govern the use of debt to finance capital projects within the Texas State University System (TSUS). The prudent use of debt can help TSUS achieve its strategic objectives while maintaining a credit rating that appropriately balances financial flexibility with cost of capital.

**Financing Programs:** TSUS is authorized to issue debt through two primary programs: the Revenue Financing System (RFS) and the Higher Education Fund (HEF).

**Revenue Financing System:** The Texas State University System Revenue Financing System (RFS) was created by the Board of Regents through the adoption of a Master Resolution on August 13, 1998. The Board established the RFS for the purpose of assembling TSUS’s component institutions revenue-supported debt capacity into a single financing program in order to provide a cost-effective debt program to the components of TSUS and to maximize the financing options available to the Board. In addition, on February 20, 2015, the BOR adopted a Supplemental Resolution which authorized a commercial paper program which is parity RFS debt.

TSUS has the authority to issue tax-exempt and/or taxable debt (bonds and ECP). The project tax status will be determined by the System staff office and bond counsel as defined under state and federal law.

Tuition Revenue Bonds (TRBs) are issued under the RFS program and are secured by the same RFS pledge of all legally available revenues of the System. RFS debt service related to TRB projects is eligible for reimbursement by the state authorized biennial appropriations. TRB authority is specially authorized by the Legislature under Chapter 55 of the Texas Education Code.

**RFS CP Program is an Extendable Commercial Paper Program:** The ECP is a short-term debt program, authorized not to exceed $240 million, used to purchase equipment, fund certain capital projects and to provide interim financing for capital projects during construction. The ECP program will be administered in accordance with the TSUS’s Extendable Commercial Paper Policy and Procedures. Authority expires December 31, 2045.

**Higher Education Fund (HEF):** Article VII, Section 17 of the Texas Constitution authorizes the Board of Regents to issue bonds and notes secured by pledged revenues consisting of up to 50% of the money allocated annually to the Board for the component institutions. Bonds issued under this authority are typically referred to as HEF bonds or constitutional appropriation bonds. The proceeds from the sale of HEF bonds or notes may only be used to finance eligible projects as described Article VII, Section 17 of the Texas Constitution. The Texas Constitution prohibits the issuance of HEF debt for auxiliary projects, except to the extent of a project’s use for educational and general activities.
Authority: All debt incurred by TSUS will be issued or incurred pursuant to resolutions approved by the Board of Regents and in accordance with the general laws of the State of Texas, including particularly Article VII, Section 17 of the Texas Constitution, Chapters 55 and 95 of the Texas Education Code, and Chapters 1207 and 1371 of Texas Government Code. Before any debt can be issued, TSUS must obtain an opinion from bond counsel that the issue complies with applicable Texas and federal laws. TSUS must also receive the necessary approvals from the Texas Attorney General.

Debt Guidelines: Any debt must be issued in strict compliance with applicable laws. The following debt guidelines will apply:

- **Project Funding:** TSUS will borrow money, through the issuance of debt, to finance only those projects that have been approved for financing by the Board of Regents. Capital projects are generally evaluated and prioritized through TSUS’s Capital Improvement Program (CIP). For construction projects that require debt financing, ECP or bond proceeds will be provided only after design development approval and appropriation of funds by the Board.

TSUS will require component institution to complete the Request for RFS or HEF bond financing (Appendix B).

- **Amortization:** The amortization of tax-exempt debt will be based on the types of assets financed, the expected available cash flows to meet debt service requirements, and tax regulations. Generally, the amortization of tax-exempt debt should not exceed the useful life of the financed asset and may never exceed the Internal Revenue Service limit of 120% of the useful life of the financed asset. The targeted maturity of RFS debt, both taxable and tax-exempt, is no longer 20 years. The maximum maturity of RFS debt is limited to 50 years by Chapter 55 of the Texas Education Code. The maximum maturity of HEF debt is limited to 10 years by Article VII, Section 17 of the Texas Constitution.

- **Financial Ratios:** In assessing its current debt levels, TSUS will take into account each component’s request for RFS or HEF bond financing and review the effects to the System’s debt affordability and debt capacity. TSUS will use selected actual and pro forma financial ratios to measure the affordability and impact to debt capacity. Although other ratios may also be evaluated, the primary financial ratios to be analyzed include the debt service coverage ratio, the debt burden ratio, and the leverage ratio.

- **Economies of Scale:** Debt financing will be coordinated to the extent practical so that multiple project needs can be accommodated in a single borrowing, thereby increasing the efficiency of the debt issuance. Since many issuance costs do not vary with the size of a borrowing, a large bond issue increases the efficiency of financing by spreading fixed costs over a greater number of projects.

- **Refunding Opportunities:** The System Administration’s Office of Finance will actively consider refinancing of outstanding debt issues when net savings for that refinancing
measured on a net present value basis are positive. Since there are limitations on the number of allowable re-financings, it is important to use re-financing opportunities wisely. In evaluating refunding opportunities, the Office of Finance will consider the value of the call option to be exercised, including the amount of time to the call date and the amount of time from the call date to maturity. Based on these and other factors, the Office of Finance will determine the minimum savings threshold for any particular transaction, however, TSUS will generally use 3% net present value (NPV) savings as a minimum threshold for determining the viability of an advance refunding and 2% NPV savings for a current refunding. Refundings that provide lesser savings may be considered under certain circumstances, such as eliminating restrictive bond covenants, in combination with other viable refunding candidates so long as the above NPV savings is achieved or in other situations that produce a greater benefit to TSUS.

**Disclosure:** The System Administration’s Office of Finance will provide updated financial information and operating data and timely notice of specified material events to each nationally recognized municipal securities information repository and any State disclosure undertakings with respect to Rule 15c2-12 promulgated by the Securities and Exchange Commission.

**Tax Compliance:** The System Administration’s Office of Finance will monitor TSUS’s ongoing responsibilities for tax compliance including but not limited to monitoring funds for yield restriction and arbitrage rebate calculations.

**Hedge Instruments:** The System Administration’s Office of Finance may consider the use of interest rate swaps and other interest rate risk management tools after carefully evaluating the risks and benefits of any proposed transaction. By using swaps in a prudent manner, TSUS can take advantage of market opportunities to minimize expected costs and manage interest rate risk. Any use of swaps must be tied directly to TSUS debt instruments. TSUS shall not enter into swap transactions for speculative purposes.

**Project Financing:** The System Administration’s Office of Finance will consider the use of project financing in those limited circumstances where the benefits of such a transaction exceed the increased costs. Project financing can be a useful financing technique in certain circumstances; however, these transactions are typically less efficient and more costly than traditional financing due to lower credit ratings, fewer economies of scale, the funding of a reserve fund, and the cost of bond insurance. Project financing does not preserve or increase debt capacity relative to traditional financing. The credit rating agencies and TSUS include project debt when assessing debt capacity of components of TSUS.

**Reporting Requirements:** The Consolidated Annual Financial Report (CAFR), presented to the Board provides detailed information on TSUS’s outstanding bonds and notes including, by series, the amount outstanding, interest rates, maturity dates, a summary
of the changes in outstanding indebtedness, and the associated debt service requirements.

**Supplemental Resolution:** Annually, at the February Board meeting, the System Administration’s Office of Finance will present to the Board for consideration a motion regarding the issuance, sale, and delivery of System Revenue Bonds for the potential projects.

This motion provides a Not-to-Exceed amount of RFS debt for all the components for a one year period, including potential debt refinancing.

**Capital Expenditures and Reimbursement:** Institutions are authorized to expend up to 4% of the estimated project cost to develop a formal program document, hire a project Architect and Engineer, complete the Design Development phase of the project and produce a detailed cost estimate. Funds needed for the costs can be provided by the component initially and may be reimbursed when outside funding, including bond proceeds, are received.

If bond proceeds are not available before the project continues to construction, an institution may continue using institutional funds and/or ECP, which may be reimbursed once bond proceeds are available, pending appropriate documentation.

US Treasury regulations allow a bond issuer to use tax-exempt bond proceeds to reimburse expenditures made prior to the date of the financing if the expenditures meet certain requirements.

Information regarding Reimbursement Guidelines can be found in **Appendix A**.
Appendix A: Reimbursement Guidelines

Treasury Regulation Section 1.150-2 allows a bond issuer to use tax-exempt bond proceeds to reimburse expenditures made prior to the date of the financing if the issue meets three requirements:

(1) **Official intent.** Not later than 60 days after payment of the original expenditure, the issuer adopts an official intent for the original expenditure.

(2) **Reimbursement period**
   (i) **In general.** The reimbursement allocation is made not later than 18 months after the later of—
      (A) The date the original expenditure is paid; or
      (B) The date the project is placed in service or abandoned, but in no event more than 3 years after the original expenditure is paid.
   (ii) **Special rule for small issuers.** In applying paragraph (d)(2)(i) of this section to an issue that satisfies section 148(f)(4)(D)(i) (I) through (IV), the “18 month” limitation is changed to “3 years” and the “3-year” maximum reimbursement period is disregarded.
   (iii) **Special rule for long-term construction projects.** In applying paragraph (d)(2)(i) to a construction project for which both the issuer and a licensed architect or engineer certify that at least 5 years is necessary to complete construction of the project, the maximum reimbursement period is changed from “3 years” to “5 years.”

(3) **Nature of expenditure.** The original expenditure is a capital expenditure, a cost of issuance for a bond, an expenditure described in § 1.148-6(d)(3)(ii)(B) (relating to certain extraordinary working capital items), a grant (as defined in § 1.148-6(d)(4)), a qualified student loan, a qualified mortgage loan, or a qualified veterans' mortgage loan.

A declaration of official intent must indicate that the recipient of the bond proceeds reasonably expects to reimburse the planned expenditures with the proceeds of a debt to be incurred. The declaration of official intent must generally describe the project for which the expenditure to be reimbursed is paid and state the maximum principal amount of debt expected to be issued for such purposes.

No declaration of official intent is required for preliminary expenditures, such as architectural, soil testing, engineering, surveying, bond issuance and similar costs incurred prior to acquisition or construction, that do not exceed 20% of the aggregate issue price of the issue or issues for that project. Costs of land acquisition, site preparation and similar costs are not treated as preliminary expenditures. No declaration of intent is required for costs of issuance of a bond or for other amounts not in excess of the lesser of $100,000 or 5% of the proceeds of the issue.

Declarations of official intent to reimburse expenditures must be "reasonable". Bond users cannot make blanket or routine declarations without a real intent to finance the specific expenditures, but for the purpose of building up reimbursable expenditures to which the proceeds of Bonds for later projects would be artificially allocated.
Deviations between a project described in an official intent and the actual project financed with reimbursement bonds do not invalidate the official intent to the extent that the actual project is reasonably related in function to the described project.

Failure to comply with the regulations results in the bond proceeds being treated as not expended and as remaining subject to arbitrage, rebate and other restrictions. Such a failure and noncompliance with such restrictions may result in the loss of tax exemption of the bonds.

**Reimbursement Procedures**

The System Administration has provided the following reimbursement certificate form and will serve to provide Official Intent. This form must be submitted to and authorized by the Vice Chancellor for Finance for any capital expenditures incurred prior to the debt issuance to be reimbursed.
Application for Reimbursement of Capital Expenditures from Bond Issue Proceeds
(Design, Planning, Acquisition and/or Construction Costs
Paid Prior to the Issuance of Tax-Exempt Debt)

The Instructions and Application relate to Treasury Regulation Section 1.150-2 which allows a bond issuer to use tax-exempted bond proceeds to reimburse certain prior expenditures.

A. The following steps are required in order for an institution to qualify prior expenditures as reimbursable under these provisions:
   a. Declare intent to spend money on a project and to repay itself from bond proceeds;
   b. Spend institutional resources on the project;
   c. Issue reimbursement debt;
   d. Allocate bond proceeds to repay the expenditure on its books in the time period permitted; and
   e. Treat bond proceeds as “spent,” freeing them from any arbitrage restriction.

B. Declare intent by completing the ESTIMATED REIMBURSEMENT columns of the Application. Print, sign and date the form and mail it to:

   Texas State University System
   Vice Chancellor for Finance
   208 E. 10th Street, Suite 600
   Austin, TX 78701

C. The Vice Chancellor for Finance will sign, date and retain the original of the Application. A signed copy will be returned to the Chief Financial Officer of the respective Component.

D. After bonds are issued and expenditures are finalized, the Chief Financial Officer will update the ACTUAL REIMBURSEMENT COLUMNS of the Application Form and mail it to the Vice Chancellor for Finance.

E. The Vice Chancellor for Finance will sign, date and return a copy of the updated Application to the Chief Financial Officer.

F. The Vice Chancellor for Finance will retain the signed original Application and the signed updated Applications.
INSTRUCTIONS

Preliminary Application

1. Enter COMPONENT NAME
2. Enter PROJECT NAME
3. Enter BOND ISSUE Series if known, otherwise leave blank
4. Provide a complete description of the project (attach separate page or pages)
5. Complete ESTIMATED REIMBURSEMENT cost entries
6. Enter total for ESTIMATED REIMBURSEMENT cost entries
7. Enter Component name
8. Print/type Chief Financial Officer (CFO) name
9. CFO signature
10. DATE preliminary application completed
11. Print/type Vice Chancellor for Finance (VCF) name
12. Mail original to the VCF, The Texas State University System
13. Retain a copy for files

Reimbursement Application (Make these entries on the copy you retained in 11, above)

1. Verify or enter BOND ISSUE Series
2. Complete the ACTUAL REIMBURSEMENT cost entries
3. Enter Total for ACTUAL REIMBURSEMENT cost entries
4. Enter the Component name
5. Print/type CFO name
6. CFO Signature
7. Enter date Reimbursement Application Completed
8. Print/type VCF name
9. Mail original to the Vice Chancellor for Finance (VCF), The Texas State University System
10. Retain a copy for files
11. VCF will sign and retain original Application
12. VCF will return a copy of signed Application to Component CFO
**THE TEXAS STATE UNIVERSITY SYSTEM**

Component: (1)

Application for Reimbursement of Capital Expenditures from Bond Issue Proceeds

(Design, Planning, Acquisition and/or Construction Costs Paid Prior to the Issuance of Tax-Exempt Debt)

<table>
<thead>
<tr>
<th>FUNCTIONAL CATEGORY</th>
<th>ESTIMATED REIMBURSEMENT</th>
<th>ACTUAL REIMBURSEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Construction</td>
<td>(5)</td>
<td>(2)</td>
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<tr>
<td>Architect/Engineer</td>
<td></td>
<td></td>
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<tr>
<td>Commissioning, Testing, and Balance</td>
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<tr>
<td>Hazardous Materials Abatement</td>
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<tr>
<td>Relocation/Moving</td>
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<tr>
<td>FF&amp;E Interior Design Consultant</td>
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<tr>
<td>State Historical Commission/State Antiquities</td>
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<td></td>
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<tr>
<td>Committee/State Archeology Survey Clearance</td>
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<tr>
<td>Survey</td>
<td></td>
<td></td>
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<tr>
<td>Geotechnical Services</td>
<td></td>
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<tr>
<td>Other - General</td>
<td></td>
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<tr>
<td>Other - Miscellaneous Services</td>
<td></td>
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<tr>
<td>Administrative Fee</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>(6)</td>
<td>(3)</td>
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</tbody>
</table>

COMPONENT CERTIFICATION:

(7) (8) (9) (4) (6)

Chief Financial Officer (Signature) (5) Chief Financial Officer (Signature) (7)

(Date) (Date)

THE TEXAS STATE UNIVERSITY SYSTEM APPROVAL

(11) (8)

Vice Chancellor for Finance (Signature) Vice Chancellor for Finance (Signature)

The Texas State University System (Date) The Texas State University System (Date)
## Appendix B: TEXAS STATE UNIVERSITY SYSTEM REQUEST FOR REVENUE FINANCING SYSTEM FUNDING

### SECTION I: Financing Requirements - (To Be Completed By System Component)

<table>
<thead>
<tr>
<th>Description of Funding Needs</th>
<th>Date Funds Required</th>
<th>Amount to be Financed</th>
<th>No. of Years Stream Available for Debt Service</th>
<th>Source (Acct. No.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equipment</strong></td>
<td></td>
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<tr>
<td>1.</td>
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<td>2.</td>
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<tr>
<td>Equipment identified in budget?</td>
<td>Yes  No</td>
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<tr>
<td>Equipment identified in Capital Plan?</td>
<td>Yes  No</td>
<td></td>
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<tr>
<td>If not, explain:</td>
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<tr>
<td><strong>Construction</strong></td>
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<td>1.</td>
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<td>4.</td>
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<tr>
<td>Project identified in Capital Plan?</td>
<td>Yes  No</td>
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<tr>
<td>If not, explain:</td>
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<tr>
<td>Project approved by BOR?</td>
<td>Yes  No</td>
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<tr>
<td>Date</td>
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<tr>
<td>Source of Funds for P&amp;I repayment:</td>
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</table>

Total pledged revenues of component:

<table>
<thead>
<tr>
<th>As of</th>
<th>Bond Series</th>
<th>Bond Balance</th>
<th>Pledged Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1. Plugged Revenues</td>
<td></td>
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<td></td>
<td>2. HEAF</td>
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<td>3. TRB</td>
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<td></td>
<td>4. Fund Balance</td>
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</tbody>
</table>

For Use by the System Administration’s Office of Finance

Amount of Debt Issuance (including Issuance Costs)

Type of Debt to be Issued

- [ ] Bonds
  - CP Interest Rate: ____________
  - # of Years CP: ____________

- [ ] Notes
  - Bond Interest Rate: ____________
  - # of Years Bonds: ____________

- [ ] Commercial Paper
  - Payment Schedule Prepared by: ____________

- [ ] Other
  - Equal Principal Payments Date Received: ____________
  - Equal Total Annual Payments Date Required: ____________

Additional Comments: ____________________________
TEXAS STATE UNIVERSITY SYSTEM
REQUEST FOR REVENUE FINANCING SYSTEM FUNDING

SECTION II: Debt Service Schedule

Component:

________________________________________________

Fiscal Year:

_________________________________________________

Project:

_________________________________________________

The debt service schedules prepared in response to your request. If you wish that this debt issuance to proceed on your behalf, please complete Section III and return the original Request Form to the System Administration's Office of Finance.

__________________________
Signed

__________________________
Date