

23.02.02 Debt Management Procedures

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Regulation Statement

The purpose of this regulation is to prescribe the responsibilities for administration of the debt programs for The Texas A&M University System (system).

Reason for Regulation

This regulation establishes the requirements and responsibilities of the system and its members as it relates to the management of the debt programs.

Procedures and Responsibilities

1. REVENUE FINANCING SYSTEM (RFS)

1.1 Determination of the Need to Finance

1.1.1 Capital needs shall be determined as part of an on-going capital planning process that identifies the available resources of the system members.

1.1.2 Financing for capital needs is available through the RFS for all system members. When financing is anticipated for funding capital needs, the submission of a Request for Revenue Financing System Financing form is required as early in the planning process as possible. A fully executed Request for RFS Financing form [including system member chief financial officer (CFO) and chief executive officer (CEO) signatures] will be required before the project is presented to the system Board of Regents (board) for approval of construction or the capital equipment or land is purchased. The decision to finance shall be made only if it is in the best interest of the system member and the system as a whole. The System Office of Treasury Services (OTS) shall work with the system member to make the determination to finance.

1.2 Request for RFS Financing Form

1.2.1 General Procedures

1.2.1.1 The system member shall complete Section I of the Request for RFS Financing form and submit it to the OTS for processing.

1.2.1.2 The OTS shall provide a debt service schedule in Section II of the Request for RFS Financing form based on the funding needs submitted by the system member. Debt service may be calculated utilizing short-term debt, long-term debt or a combination of both. Allocated issuance costs and administration costs directly related to a debt issuance shall be factored into the financing calculation. Short-term debt shall be projected using the two-year double A rated municipal rate.

1.2.1.3 The debt service schedule(s) shall be returned to the system member's CFO for review and adjustment if necessary. Approval to proceed with the financing shall require the signature of the OTS in Section II of the Request for RFS Financing form and the signatures of the system member CFO and CEO in Section III. The original or facsimile copy of Section III shall be returned to the OTS.

1.2.2 The following provisions apply to major construction projects which are to be financed with system funds.

1.2.2.1 The system member shall contact the OTS in the earliest stages of capital needs identification to discuss financing alternatives.

1.2.2.2 The system member shall submit Request for RFS Financing Form Section I for processing by the OTS prior to presenting a construction award to the system board. Projects may not be submitted for approval to the system board's Facilities Planning and Building Committee until Request for RFS Financing Form Section III has been returned to the OTS with proper signatures.

1.2.2.3 If conditions change significantly after the financing request is submitted, a revised Request for RFS Financing Form shall be submitted and the debt service shall be recalculated and re-approved.

1.2.2.4 If, during design or construction, a change in scope alters the total cost of the project by 10% or more and the change will be financed, the previously agreed upon financing terms shall be recalculated to determine if the system member has the capacity to finance the scope increase. A revised debt service schedule shall be transmitted under cover of Request for RFS Financing Form Section II, and Request for RFS Financing Form Section III must be signed and returned to the OTS by the system member before an appropriation for the increased scope will be processed.

1.2.3 The following provisions apply to minor construction projects which are to be financed with system funds.

- 1.2.3.1 The system member shall contact the OTS in the earliest stages of capital needs identification to discuss financing alternatives.
- 1.2.3.2 The system member shall submit Request for RFS Financing Form Section I for processing by the OTS prior to submitting Form C-1 or other initiating form. Upon receipt of a properly authorized Request for RFS Financing Form Section III, the OTS shall give notice in writing to the system member that the funding is in order for project initiation to commence.
- 1.2.4 The following provisions apply to financed capital equipment.
 - 1.2.4.1 The system member shall contact the OTS in the earliest stages of capital needs identification to discuss financing alternatives.
 - 1.2.4.2 The system member shall submit Request for RFS Financing Form Section I for processing by the OTS prior to including any financed capital equipment in the applicable annual operating budget or prior to asking the chancellor or the board for an appropriation. Upon receipt of a properly authorized Request for RFS Financing Form Section III, the OTS shall give notice in writing to the system member that the capital purchase appropriation process may continue.
 - 1.2.4.3 The financing of capital equipment needs is usually most efficiently managed using a short-term debt instrument. Therefore, when a system member chooses to follow through with a capital equipment financing, the system member is agreeing to make annual principal payments to the system and shall bear the fluctuating market interest rates of the short-term debt instrument as long as the obligation of the system member is outstanding.

1.3 Annual Certification by System Members

Each system member with RFS debt outstanding shall prepare a fiscal year-end certification. The certification, signed and approved by the CFO and CEO, shall be submitted to the OTS no later than December 15th of each year and shall be used by the OTS as input for reporting the status of the RFS to the chancellor and the board. The certification shall include:

- (a) a comparison of revenue projections with those actually collected in the fiscal year just ended and an updated assessment of anticipated future revenues. If actual revenues were not sufficient for debt service requirements, then an explanation as to why they were insufficient and the impact on the system member's current and future ability to pay for its share of debt service shall be required;
- (b) verification that the system member has sufficient legally available funds for the next fiscal year's debt service and allocated expenses; and

- (c) verification that the system member is in compliance with all bond covenants and system policies relative to the issuance of debt.

1.4 Annual Report on the Status of the RFS

The OTS shall compile the following information to be used in reporting annually to the chancellor and the board on the status of the RFS.

- (a) the balance of RFS obligations outstanding at the beginning of the fiscal year and on the date of the report;
- (b) a listing of projected needs (by system member and funding source) for the next year;
- (c) the amount of additional RFS obligations that shall be necessary to fund the system's needs for the next fiscal year; and
- (d) a certification that system members are current on debt service funding for outstanding RFS obligations. If a system member is not in compliance, the steps being taken to bring the system member into compliance shall be included and shall be reported monthly until compliance is achieved.

1.5 Payment of RFS Debt Service

1.5.1 The OTS shall process debt service payments as they are due. Funds to cover the debt service are the responsibility of each participating system member.

1.5.2 Funding accounts that are identified and approved on the RFS Financing Form shall be incorporated into the annual budget process and transfers shall be authorized by each system member. The OTS shall be responsible for preparing the annual debt service budget with discussion and concurrence from the system members where necessary.

1.5.3 The following provisions apply to debt service funded with system member local funds.

1.5.3.1 On or about November 15th of each year, until bond maturity, the interest for the next payment date and applicable annual paying agent fees shall be transferred by the system member to its holding account on the system's books and in the Cash Concentration Pool (Pool). On or about May 15th of each year, until bond maturity, the interest and principal for the next payment date shall be transferred in the same manner.

1.5.3.2 The OTS shall calculate and prepare the transfer requests and shall notify the system members in writing of the transfer amounts prior to the November 15th and May 15th dates. The CFO (or delegate) shall authorize the transfer of the funds within the Pool.

- 1.5.3.3 Interest earnings on balances maintained in the holding accounts shall be credited directly to the system member's Pool position and not to the holding account. The OTS shall allocate Pool net investment earnings among all bond issues for each holding account. Such allocation shall be made using the dollar-days averaging method.
- 1.5.3.4 Each November 15th and May 15th (or the actual debt service payment date) thereafter, the full debt service requirement shall be transferred by the system from the holding accounts to the appropriate bond debt service payment accounts on the system's books.
- 1.5.3.5 For financings funded with short-term debt, the debt service payments shall be periodic and debt service funds shall be transferred from the system member holding accounts on an as-needed basis. Programmatic principal payments shall be made annually on a scheduled short-term maturity date.
- 1.5.4 The following provisions apply to debt service funded with tuition revenue or Available University Funds (AUF).
 - 1.5.4.1 At the beginning of each fiscal year, the OTS shall transfer from the system member to the system appropriated general revenue funds for debt service associated with tuition revenue bonds or revenue bonds.
 - 1.5.4.2 Concurrent with RFS debt payments, the OTS shall transfer from the system member to the system appropriated AUF for debt service associated with RFS bonds or commercial paper.
 - 1.5.4.3 On scheduled bond or commercial paper debt service payment dates, the OTS shall initiate wire transfers from system local funds to the paying agents. Reimbursement vouchers will be submitted to draw the state funds from the State Treasury via Automated Clearing House (ACH). The turnaround time for reimbursement is expected to be ten working days or less.
- 1.5.5 The following provisions apply to debt service associated with financed equipment funded with general revenue.
 - 1.5.5.1 When a system member pledges general revenue for the purpose of paying debt service on financed equipment purchases, the system member shall confirm in writing the Appropriation, Fund and Program Cost Account of the pledged funds by countersigning a letter distributed by the OTS. This letter shall be kept on file and shall be provided to the Fund Accounting Division of the State Comptroller's Office as authorization to periodically place funds in the special system appropriation which has been established for the payment of RFS commercial paper debt service.
 - 1.5.5.2 At the beginning of the fiscal year or on a debt service payment date, the OTS shall transfer from the system member to the system

appropriated general revenue for debt service associated with RFS bonds or commercial paper.

1.5.5.3 On scheduled commercial paper debt service payment dates, the OTS shall initiate wire transfers from system local funds to the paying agent. Reimbursement vouchers will be submitted to draw the state funds from the State Treasury via ACH. The turnaround time for reimbursement is expected to be ten working days or less.

1.5.5.4 Copies of USAS Budget Revision forms shall be provided to the system members. Appropriation reconciliations shall be completed periodically by the OTS and unused funds returned to the system member at fiscal year end for lapsing to the state.

2. PERMANENT UNIVERSITY FUND (PUF)

2.1 PUF Allocations

PUF allocations will be included in the annual operating budget in amounts recommended by the chancellor.

2.2 Payment of PUF Debt Service

2.2.1 The OTS shall process debt service payments as they are due. Funds to cover the debt service are provided from the AUF.

2.2.2 For semi-annual bond debt service, AUF funds are transferred into the Interest and Sinking Fund account held in the State Treasury. The OTS will wire funds directly to the paying agent and request reimbursement from the state. The turnaround time for reimbursement is expected to be ten days or less.

2.2.3 For payment of debt service on Subordinate Lien Notes, wire transfers of AUF held in the Imprest Account at The Texas Treasury Safekeeping Trust Company (TTSTC) are ordered prior to 9:00 A.M. on a maturity date. A reimbursement voucher is prepared immediately after the wire transfer with the funds routing back to the TTSTC account for redeposit.

3. GENERAL DEBT MANAGEMENT

3.1 Construction Project Approval by the Texas Higher Education Coordinating Board (CB) and the Reimbursement of System Member Interim Local Fund Appropriations

3.1.1 CB approval is required for system projects. If more than 50% of a project for Texas A&M University or Prairie View A&M University is funded with PUF debt proceeds or AUF, the project is exempt from CB review and approval.

3.1.2 RFS debt proceeds shall not be appropriated to a project prior to receiving CB approval for the project when such approval is required. As such, system members must provide interim funding to cover pre-construction services for a construction project.

3.1.3 System member funds may be factored into the total financing scheme and may be reimbursed with debt proceeds after the CB approval is obtained. An "Intent to Reimburse" clause must be included in the project initiation documents and no later than the contract award process in order to provide for reimbursement of the local funds.

3.1.4 When reimbursement is to occur, The System Office of Facilities Planning and Construction (FPC) will cooperate with the system member fiscal office and The System Office of Budgets and Accounting (SOBA) to effect the removal of expenditures and appropriations from the system member's accounts and the subsequent transfer of the expenditures to the system accounts. Once the expenditures have been transferred, an equity transfer from debt proceeds shall be initiated by the SOBA and cash shall be transferred back to the system member in the Pool. Cash shall be transferred only to the extent that expenditures were incurred with system member local funds.

3.2 Annual Debt Service Budget

The OTS shall be responsible for preparing the annual debt service budget for RFS and PUF debt service and related expenses. Schedules summarizing the debt service requirements for the system members and System Offices will be sent to the SOBA. The SOBA will transmit debt service information to the system members for inclusion in the annual operating budget.

3.3 Management of Debt Proceeds

3.3.1 Immediate and near-term cash needs for construction and equipment purchases shall be met with short-term obligations when economic conditions warrant the issuance of short-term debt. Likewise, long-term debt shall be utilized when financially prudent.

3.3.2 Debt proceeds issued to fund major construction projects shall be expended by FPC. Debt proceeds for equipment, land purchases, and system member minor construction projects shall be handled between the system and the system members through equity transfers of cash balances in the Pool. These equity transfers are to be submitted to the SOBA by the system members concurrent with vendor payment processing.

3.4 Responsibility for Accounting

All debt-related calculations shall be performed by the OTS. The originating accounting documents shall be prepared by the SOBA and submitted to the OTS for review and approval. Reconciliation of all debt-related general ledgers shall be the responsibility of the SOBA. Reconciliation of the subsidiary ledgers and the holding accounts asset balances in the Pool shall be the responsibility of the OTS.

3.5 Arbitrage

The OTS is responsible for ensuring that the system is in compliance with federal arbitrage regulations. Debt proceeds shall be properly invested to maximize earnings, while staying within the confines of the arbitrage regulations. To this end, the OTS and the system member CFOs shall periodically review and test the validity of the outflows of debt proceeds, recommend adjustments if necessary, and calculate arbitrage spending milestones. The Pool accounts containing debt proceeds shall be the official record of activity as it relates to arbitrage. The OTS shall provide the necessary documentation to the financial advisor for the preparation of the annual arbitrage liability calculations, when required.

3.6 Continuing Disclosure

The OTS shall work closely with bond counsel, the financial advisor and the SOBA in an effort to comply with Securities and Exchange Commission Continuing Disclosure Rule 15c2-12 which became effective July 1995.

3.7 Relationship with Rating Agencies

3.7.1 Regarding the short-term debt of RFS and PUF, the OTS, on a quarterly basis or as requested, shall provide the rating agencies with data and reports necessary for continued monitoring of the debt.

3.7.2 The system shall at all times maintain legally available fund balances to meet the rating agency requirements of providing self-liquidity for RFS Commercial Paper supported by the system's self-liquidity.

3.7.3 The OTS shall notify the rating agencies if the system's RFS commercial paper program is terminated.

3.8 Relationship with Texas Bond Review Board

The OTS shall be responsible for complying with Texas Bond Review Board Rules, as applicable. All requests for information received from the Texas Bond Review Board shall be processed as expeditiously as possible.

Related Statutes, Policies, or Requirements

[Texas Constitution, Article VII, Section 17](#)

[Texas Constitution, Article VII, Section 18](#)

[Texas Education Code, Chapter 55](#)

[Texas Education Code, Chapter 61](#)

[Texas Government Code, Chapter 1371](#)

[System Policy 23.02, Debt Management](#)

Definitions

Cash Concentration Pool – pool for the collective investment of operating, non-operating, and other funds held locally for the system members.

Holding Account – funds held at the system on behalf of system members to facilitate making payments for system members.

Major construction project – a project for the construction of new buildings, facilities or other permanent improvements as defined in System Policy 51.04 or a project for the repair, renovation or rehabilitation of existing buildings, facilities or other permanent improvements as defined in System Policy 51.04 and financed with system funds.

Minor construction project – a project for the construction of new buildings, facilities or other permanent improvements as defined in System Policy 51.04 or a project for the repair, renovation or rehabilitation of existing buildings, facilities or other permanent improvements as defined in System Policy 51.04 and financed with system funds.

System funds – funds managed at the system level, including AUF, Special Mineral Fund (SMF), PUF debt proceeds and RFS debt proceeds.

Contact Office

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