23.02 Debt Management

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Policy Statement

This policy sets out the responsibilities of the Board of Regents (board), as assigned by law, to act as a fiduciary in the management of indebtedness of The Texas A&M University System (system).

Reason for Policy

This policy delineates the roles and responsibilities of the board, chancellor, and staff regarding the management of system indebtedness.

Procedures and Responsibilities

1. GENERAL

1.1 As provided in the Texas Education Code, each member of the board has the legal responsibilities of a fiduciary in the management of system indebtedness. All debt programs will be made in accordance with applicable state and federal regulations. The board will approve the issuance of all system bond indebtedness.

1.2 The chancellor or authorized representative is authorized to issue short-term indebtedness up to the authorized amounts approved in the resolutions for Revenue Financing System (RFS) and Permanent University Fund (PUF) programs. The short-term debt programs are utilized to purchase equipment and to provide interim financing for capital projects during construction. All conversions to long-term indebtedness will be approved by the board.

1.3 The treasurer or authorized representative of the system is delegated the authority to designate a financing team consisting of bond counsel, financial advisor and underwriters and is responsible for assuring that all bond covenants are in compliance and that all necessary approvals, certifications and authorizations are fully documented and made available to the board and to all bondholders. Pricing of bond issues may be handled by the Office of Treasury Services.

1.4 The Office of Treasury Services is responsible for assuring that all debt service payments are made in a timely manner to the appropriate paying agents.

1.5 Debt service funding is the responsibility of each member participating in the RFS and the HEF programs. PUF debt service will be paid from the Available University Fund (AUF).

1.6 The chancellor or authorized representative is authorized and directed to execute Reimbursement Certificates, as required by U.S. Treasury Regulations, Section 1.150-2, in connection with projects the board intends to debt finance.

2. RFS DEBT MANAGEMENT

2.1 General

All members are eligible to participate in the RFS.

2.2 Guidelines

2.2.1 Buildings and other major capital projects will be financed for a period up to the lesser of the project's estimated useful life or 40 years.

2.2.2 Equipment will be financed for a period up to 120% of its useful life.

2.2.3 To the extent required by law, Texas Higher Education Coordinating Board approval will be obtained and debt will not be issued for a project prior to receiving such approval.

2.2.4 Individual revenue streams considered for proposed debt service must meet a 1.15 debt coverage ratio test, unless the debt is being issued as "tuition revenue" debt, in which case it must meet a 1.00 debt coverage ratio test. Debt coverage is defined as Total Revenues divided by Total Debt Service.

2.2.5 Debt financing resources will be approved by the board in accordance with System Policy *51.04, Delegation of Authority on Construction Projects*. Revenue stream certification by the members, the non-default certificate from the Office of Treasury Services and all requirements of the Master Resolution will be included in agenda items submitted to the board.

2.2.6 For minor construction projects, as defined by System Policy *51.04*, to be financed through the RFS, the chancellor or authorized representative is authorized and directed to make the finding, on behalf of the board, required by Section 5(a) of the Master Resolution Authorizing the Revenue Financing

System. A copy of the finding for each minor construction project will be filed with the Office of Treasury Services.

2.2.7 If required, application to and approval from the Texas Bond Review Board for new long-term issues will be made after the board has approved the long-term debt issuance. Long-term debt issuances are also subject to approval of the Attorney General.

2.3 Reporting

2.3.1 Certification by Members

Each member with debt outstanding will prepare a fiscal year-end certification. The certification, signed and approved by the chief financial officer (CFO) and chief executive officer (CEO), will be submitted to the Office of Treasury Services no later than December 15th of each year and will be used by the Office of Treasury Services as input for reporting the status of the RFS to the system CFO, the chancellor and the board. The certification will include the following:

2.3.1.1 a comparison of revenue projections with those actually collected in the previous year and an updated assessment of anticipated future revenues. If actual revenues were not sufficient, then an explanation as to why they were insufficient and the impact on the member's current and future ability to pay for its share of debt service will be required;

2.3.1.2 verification that the member has sufficient legally available funds for the next fiscal year's principal and interest payments; and

2.3.1.3 verification that the member is in compliance with all bond covenants and board policies relative to the issuance of debt.

2.3.2 Report on the Status of the RFS

The Office of Treasury Services will prepare an annual report on the status of RFS obligations for the chancellor and the board. The report will include the following:

2.3.2.1 the balance of RFS obligations outstanding at the beginning of the fiscal year and on the date of the report;

2.3.2.2 a listing of projected needs (by member and funding source) for the next year;

2.3.2.3 the amount of RFS obligations that will be necessary to fund the system's needs for the next year; and

2.3.2.4 a certification that members are current on debt service funding for RFS obligations outstanding. If a member is not in compliance, the

steps being taken to bring the member into compliance will be included and will be reported monthly until compliance is achieved.

3. PUF DEBT MANAGEMENT

3.1 General

The Texas A&M University System Offices, Texas A&M University, Prairie View A&M University, Tarleton State University, Texas A&M University at Galveston, Texas A&M University-San Antonio, Texas A&M University-Central Texas, Texas A&M Forest Service, Texas A&M AgriLife Research, Texas A&M AgriLife Extension Service, Texas A&M Engineering Experiment Station, Texas A&M Engineering Extension Service, and Texas A&M Transportation Institute are eligible to participate in PUF financing.

3.2 Guidelines

3.2.1 PUF debt proceeds may be used for acquiring land, constructing and equipping permanent improvements, major repair and rehabilitation of permanent improvements, acquiring capital equipment, library books and library materials, and refunding previously issued PUF indebtedness.

3.2.2 Buildings and other major capital projects will be financed for a period up to the lesser of the project's estimated useful life or 30 years.

3.2.3 Equipment will be financed for a period up to 120% of its useful life.

3.2.4 The chancellor will be responsible for a system-wide PUF equipment and minor construction projects funding appropriation in amounts approved by the board as part of the annual budget.

3.2.5 PUF bond proceeds will not be used for maintenance, minor repairs, operating expenses, student housing, intercollegiate athletics, or auxiliary enterprises.

3.2.6 PUF bond proceeds may be used for major repair and rehabilitation of leased buildings or other permanent improvements, provided there is clear and adequate consideration to the system in the overall transaction, such as the existence of a lease of sufficient length to provide expected benefits which would justify the expenditure.

3.2.7 The indebtedness will be payable solely out of the AUF and, except for refunding bonds, the debt will be competitively bid. PUF bonds and notes will be submitted for approval by the Attorney General as required.

3.2.8 The outstanding PUF debt of the system is limited by the Constitution to 10 percent of the cost value of the PUF, exclusive of real estate.

4. HEF DEBT MANAGEMENT

4.1 General

Texas A&M University-Corpus Christi, Texas A&M University-Kingsville, Texas A&M International University, West Texas A&M University, Texas A&M University-Commerce and Texas A&M University-Texarkana are eligible to participate in the HEF financing program.

4.2 Guidelines

4.2.1 HEF debt proceeds may be used for acquiring land, constructing and equipping permanent improvements, major repair and rehabilitation of permanent improvements, acquiring capital equipment, library books and library materials, and refunding previously issued HEF indebtedness.

4.2.2 Indebtedness will be payable with HEF appropriations. Maturities will not exceed ten years and the indebtedness will be competitively bid. HEF indebtedness is subject to approval by the Attorney General.

4.2.3 No more than fifty percent of the annual HEF appropriation of a member will be used for paying debt service on HEF indebtedness issued on behalf of the member.

4.2.4 HEF debt proceeds will not be used for maintenance, minor repairs, operating expenses, student housing, intercollegiate athletics, or auxiliary enterprises.

4.2.5 HEF debt proceeds may be used for major repair and rehabilitation of leased buildings or other permanent improvements, provided there is clear and adequate consideration to the system in the overall transaction, such as the existence of a lease of sufficient length to provide expected benefits which would justify the expenditure.

5. INTEREST RATE MANAGEMENT

5.1 As provided in the Texas Education Code, Chapter 55 and Texas Government Code, Chapter 1371, the board has the authority to enter into interest rate management agreements including swap, basis, forward, option, cap, collar, floor, lock, and hedge transactions, similar transactions, or any combination of those types of transactions in conjunction with management of the system's RFS debt program.

5.2 Interest rate management transactions will be used for the purpose of reducing the cost of existing or planned debt, hedging the interest rate of existing or planned debt, or optimizing capital structure. Interest rate management transactions shall not be entered into for speculative purposes.

5.3 In connection with the execution of an interest rate management transaction, the system must obtain independent advice with respect to such transaction from a financial advisor or swap advisor with experience in comparable interest rate management transactions.

5.4 The authorized representative shall determine that each interest rate management transaction entered into by the system conforms to this policy after reviewing a report prepared in accordance with Texas Government Code, Chapter 1371.

5.5 To the extent the system enters into an interest rate management transaction pursuant to which it may be required to pay a variable rate of interest, the authorized representative shall consider at the time such transaction is executed what, if any, liquidity will be necessary to ensure the payment of such obligations.

5.6 Counterparty Qualifications

5.6.1 In order to qualify as an eligible counterparty, at the time of entry into an interest rate management transaction, a potential counterparty must (i) meet the requirements of Section 5.6.1.1 or Section 5.6.1.2 and (ii) satisfy the system's exposure limit described in Section 5.8.

5.6.1.1 The counterparty shall be rated at least AA- or Aa3 by two of the three nationally recognized credit rating agencies.

5.6.1.2 The counterparty shall be rated at least A or A2 by two of the three nationally recognized credit rating agencies and shall be required to obtain credit enhancement from a third party provider meeting the requirements of Section 5.6.1.1 with respect to its obligations under the interest rate management transaction.

5.6.2 Each counterparty to an interest rate management transaction must provide the authorized representative with a written disclosure of any payments made by the counterparty to another person to procure such interest rate management transaction.

5.7 Methods for Awarding Interest Rate Management Transactions

5.7.1 In general, interest rate management transactions will be selected via competitive bids.

5.7.2 An authorized representative may determine to enter into an interest rate management transaction on a negotiated basis with counterparties meeting the requirements in Section 5.6.1 of this policy.

5.7.3 For interest rate management transactions that are not awarded through the competitive bidding process, each counterparty must provide the authorized representative with a written certification as required by Texas Government Code, Chapter 1371.

5.8 Managing Interest Rate Management Transaction Risks

Certain risks will be created when the system enters into interest rate management transactions. These risks, including counterparty, amortization, basis, credit, termination, and tax risk, will be considered when entering into an interest rate management transaction.

5.8.1 The system's exposure to counterparty shall be calculated as the sum of mark-to-market values of all interest rate management transactions between the counterparty and the system, net of collateral posted by the counterparty.

5.8.2 The system shall not enter into an interest rate management transaction with an otherwise qualified counterparty unless the system's exposure, calculated as described in Section 5.8.1, is less than the threshold shown for the counterparty's rating category in the following chart.

Unenhanced Credit Rating		Exposure Limit
AAA	Aaa	$30 million
AA+	Aa1	$25 million
AA	Aa2	$20 million
AA-	Aa3	$15 million
A+	A1	$10 million
A	A2	$5 million

The counterparty's credit rating category shall be determined by the counterparty's lowest prevailing credit rating by one of the three nationally recognized credit rating agencies.

5.8.3 If a counterparty's credit rating is downgraded and results in the mark-to-market value exceeding the exposure limit, the counterparty shall provide collateral, obtain other credit enhancement acceptable to the authorized representative, or terminate a portion of the interest rate management transaction to ensure compliance with this policy.

5.9 Reporting Interest Rate Management Transactions

At least annually, an authorized representative shall present to the board a written report, signed by an authorized representative, on all outstanding interest rate management agreement transactions which addresses the requirements of Texas Government Code, Chapter 1371.

Related Statutes, Policies, or Requirements

Tex. Const. art. VII, § 17

Tex. Const. art. VII, § 18

Tex. Gov't Code Ch. 1371

Tex. Educ. Code Ch. 55

Member Rule Requirements

A rule is not required to supplement this policy.

Contact Office

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