

10.300 Debt Management

- 10.301 Incurring Debt. The System wholly on behalf of the component institutions of the system shall issue or incur debt (taxable or tax exempt) in accordance with applicable federal and state law and pursuant to actions taken by the Board to authorize the issuance or incurrence of debt. The System shall obtain an opinion from bond counsel that the issue complies with applicable laws and regulations and receive requisite approval from all necessary state agencies before issuing or incurring any long-term or short-term debt. If a project requires Texas Higher Education Coordinating Board approval, no debt proceeds will be allocated to that project prior to receiving such approval.
- 10.302 Goals. The System will manage its debt within its overall financial profile as follows:
1. Identify, review, and prioritize projects for debt financing that are critical to the mission and advance the strategic objectives of the System and allocate the System's debt capacity to these projects.
 2. Align the financial position of the System to optimize its credit profile in conjunction with its strategic plan to obtain favorable cost of capital, flexibility, and terms.
- 10.303 Project Prioritization and Financing Form Submission. The System recognizes that debt as a funding source is a limited resource. Using debt as a funding source for capital projects is made in the context of the missions of the System and its Component Institutions - and considering other funding options such as state sources, philanthropy, and self-funding. Allocation and expenditure of replacement proceeds, if any, resulting from tax credits associated with a debt financed project shall require Board approval.
1. Financing for capital needs is available through the Revenue Financing System (RFS) for all component institutions. When financing is anticipated for funding capital needs, the submission of a Revenue Financing System Financing Form (RFS financing form) is required as early in the planning process as possible. A fully executed RFS financing form [including component institution Chief Financial Officer (CFO) and President signatures] will be required before the project is presented to the Board of Regents (board) for approval of construction, renovations, additions, capital equipment, infrastructure or land is purchased. The decision to finance shall be made only if it is in the best interest of the component institution and the system as a whole. The System Office of

Finance (System Finance) and Treasury (Treasury) shall work with the component institution to make the determination to finance. Exceptions to the process for exigent reasons shall be made by the UNT System chief financial officer (UNT System CFO).

2. General Procedures

- (a) The component institution shall complete Section I of the *RFS Financing* form and submit it to Treasury for processing.
- (b) Treasury shall provide a debt service schedule in Section II of the *RFS Financing* form based on the funding needs submitted by the component institution. 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. Interest rates will reflect estimated rates on a project's expected borrowing date.
- (c) The debt service schedule(s) shall be returned to the component institution's CFO for review and adjustment if necessary. Approval to proceed with the financing shall require the signature of Treasury in Section II of the *RFS Financing* form and the signatures of the component institution CFO and President in Section III. The original or electronic copy of Section III will be returned to Treasury.

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

- (a) The component institution shall contact Treasury in the earliest stages of capital needs identification to discuss financing alternatives.
- (b) The component institution shall submit the *RFS Financing* form Section I for processing by Treasury prior to presenting a construction award to the board. Projects may not be submitted for approval to the board's Strategic Infrastructure Committee until the *RFS Financing* form Section III has been returned to Treasury with proper signatures.
- (c) If conditions change significantly after the financing request is submitted, a revised *RFS Financing* form shall be submitted, and the debt service shall be recalculated and re-approved.
- (d) 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 component institution has the capacity to

finance the scope increase. A revised debt service schedule shall be transmitted under cover of *RFS Financing* form Section II, and *RFS Financing* form Section III must be signed and returned to Treasury by the component institution before an appropriation for the increased scope will be processed.

4. The following provisions apply to minor construction projects which are to be financed with system funds.
 - (a) The component institution shall contact Treasury in the earliest stages of capital needs identification to discuss financing alternatives.
 - (b) The component institution shall submit the *RFS Financing* form Section I for processing by Treasury. Upon receipt of a properly authorized *RFS Financing* form Section III, funding will be available for the project.
5. The following provisions apply to financed capital equipment.
 - (a) The component institution shall contact Treasury in the earliest stages of capital needs identification to discuss financing alternatives.
 - (b) The component institution shall submit the *RFS Financing* form Section I for processing by Treasury 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 *RFS Financing* form Section III, funding will be available for the capital purchase.
 - (c) The financing of capital equipment needs is usually most efficiently managed using a short-term debt instrument. Therefore, when a component institution chooses to follow through with a capital equipment financing, the component institution 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 component institution is outstanding.

10.304 Debt Capacity and Affordability.

1. In evaluating its debt capacity and affordability, the UNT System CFO will consider current debt levels, future debt financings, and overall financial strength of the System and the Component Institutions. Debt capacity considers the financial resources and the ability to leverage financial resources to finance certain capital projects. Debt affordability considers the ability to pay the debt service on an annual basis through

operating budgets and identified revenue streams.

2. The UNT System CFO monitors and reports key financial indicators to the Board of Regents at least annually and shall benchmark these financial ratios to external sources, such as medians for the "Aa2/AA" category and peer higher education institutions.
3. The System evaluates its performance against these measures with a long-term view and will monitor the trend of the ratios over time. The System recognizes that financing a strategically important project may cause one or more ratios to perform poorly against the trend, median, or peer comparison in the short-term. Accordingly, the System takes a long-term view to evaluate the project. Based on changing market conditions, the Vice Chancellor for Finance may change the financial indicators or ratios as related to the financial strength of the System.
4. The UNT System CFO will evaluate alternative financings to determine the impact on the System's credit profile.

10.305 Debt Financial Ratios. In connection with this policy the ratios below will be monitored on at least an annual basis in conjunction with the adoption of the annual capital improvement plan - at both the System and component level - and reported to the Board of Regents. These ratios will be taken into consideration when developing long-term capital plans and when authorizing the issuance of additional debt. While these primary ratios below will be analyzed, other ratios may also be evaluated. The UNT System CFO will evaluate the impact of proposed amendments to the capital improvement plan and report any anticipated material changes to the below ratios.

1. Cash and Investments to Debt: This ratio measures the availability of cash and investments to debt and is a medium to long-term indicator of financial health based on the strength of the balance sheet.
2. Debt Service to Adjusted Operating Expenses: This ratio measures the percentage of expenses that support debt service and is an indicator of the System's operating flexibility to finance existing obligations and provide funding for new initiatives.
3. Debt Service Coverage Ratio: This ratio measures the System's ability to cover debt service requirements with operating revenues and is an indicator of the strength of the operating income's ability to meet its annual obligations.

4. Cash and Investments to Operating Expenses: This ratio measures the ability to cover operating expenses with cash and investments and is an indicator of the financial strength of the System. Also, it provides insight into the amount of flexibility the System has to invest in new initiatives from existing resources.

10.306 Short-term Indebtedness.

1. The Board delegates to the UNT System CFO or to the Associate Vice Chancellor for Treasury, subject to Section 10.312 below, the authority to issue short-term indebtedness of up to \$150,000,000 in Revenue Financing System ("RFS") commercial paper, which may be issued as traditional commercial paper ("CP") or as extendible commercial paper ("ECP"). The aggregate principal amount of CP at any one time outstanding shall not exceed: (a) the aggregate principal amount established by resolution of the Board; (b) liquidity requirements approved by the Board; and (c) the sum of self-liquidity provided by the System and liquidity support obtained with the approval of the Board from a financial institution. The aggregate principal amount of ECP at any one time outstanding shall not exceed:
(a) the aggregate principal amount established by resolution of the Board; and (b) parameters approved by the Board to service extendible rate debt payments. The maximum combined amount of CP and ECP maturing on any one day is \$25,000,000 and the maximum combined amount of CP and ECP maturing in the same week is \$50,000,000; except for circumstances when the System has identified funds including, but not limited to, proceeds of refunding bonds issued to convert interim financing commercial paper notes into long-term obligations, to extinguish commercial paper notes.
2. The UNT System CFO shall be responsible for identifying funds held by the System for the purpose of providing self-liquidity in support of CP notes, the investment of such funds, and the administration and development of a policy with respect to the management of the self-liquidity program.
3. Short-term debt may be used to purchase equipment, to provide interim financing for capital projects (including land acquisition) during construction, to pay for issuance costs, and to provide continued financing after construction has been completed.
4. The UNT System CFO shall be responsible for monitoring the issuance of RFS commercial paper, including the rollover of outstanding CP and ECP notes and the payment of any extendible interest rate obligations with respect to ECP. All conversions of CP and ECP notes to long-term indebtedness shall be approved by the Board by adoption of a resolution authorizing the issuance of long-term indebtedness to refinance CP and ECP notes.

10.307 Use of Commercial Paper after Completion of Construction.

1. For projects that utilize CP or ECP as interim financing and are expected to be completed before or during the next fiscal year, Institutions shall budget for projected debt service expenses assuming that the CP or ECP shall be fixed into long-term bonds in the next fiscal year, at prevailing rates as provided by System Treasury staff. If CP or ECP issued to provide interim financing for a project is to remain outstanding beyond the fiscal year end that construction of the project is completed, the System Administration or Component Institution shall submit a written proposal and financing plan to the UNT System CFO within a reasonable period of time, but no later than 90 days, prior to the expected date of completion of the project. Approval is required from the UNT System CFO for CP or ECP to remain outstanding after construction of a project is completed. CP or ECP may remain outstanding for a period no greater than two years after the completion of a project, unless the Board, in its sole determination, permits CP or ECP to remain outstanding beyond the two-year period.
2. Any fiscal year interest savings realized by financing a project after construction with CP or ECP, as compared to projected interest rate payments if the financing had been converted to fixed long- term bonds, shall be used to reduce the project's outstanding CP or ECP principal balance unless otherwise approved by the Board, the Chancellor or the UNT System CFO.

10.308 Bond Approval. The UNT System CFO or the Associate Vice Chancellor for Treasury has the authority to approve the pricing of bond and note issues and is responsible for assuring compliance with all bond covenants and that all necessary approvals, certifications, and authorizations are fully documented and made available to the Board and to all bondholders.

10.309 Debt Service. The UNT System CFO is responsible for assuring that all debt service payments are made in a timely manner to the appropriate paying agents. The President is responsible for debt service funding if a Component Institution is participating in the RFS program.

10.310 Texas Higher Education Coordinating Board Approval. The UNT System CFO shall be responsible for maintaining a record of the approvals of projects by the Texas Higher Education Coordinating Board, when applicable, that are financed or to be financed with the proceeds of debt, including approvals identifying the proposed funding sources and amounts authorized for approved projects.

10.311 Reimbursement Certificates. The UNT System CFO is authorized and directed to execute Reimbursement Certificates, as required by U.S. Treasury Regulations § 1.150-2, in connection with projects the Board intends to debt finance.

- 10.312 Financing of Capital Items with Commercial Paper. Financing of any capital item with RFS commercial paper must be approved by the Board. The UNT System CFO shall be responsible for submitting any required notice to the Texas Bond Review Board.
- 10.313 Compliance. The System receives financial benefits from the Revenue Financing System and the issuance of tax-exempt RFS commercial paper and bonds to achieve the System's tax-exempt purposes. The Board recognizes that legal obligations must be met to ensure good stewardship of this tax-exempt benefit. The System shall adopt appropriate regulation(s) and procedures related to tax-exempt RFS commercial paper and bond compliance, including issuance, expenditure of proceeds, and post-issuance compliance consistent with the Internal Revenue Code, Treasury Regulations, these Regents Rules, and bond documents.

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