

SYSTEM REGULATION

23.02.02 Debt Management Procedures

July 31, 1996

Revised September 30, 1998

Revised November 5, 2001

Revised January 16, 2004

Supplements System Policy 23.02

1. DEFINITIONS

- 1.1 Major Construction project: a project for the construction of new buildings, facilities or other permanent improvements that exceeds \$1,000,000 in cost, or a project for the repair, renovation or rehabilitation of existing buildings, facilities or other permanent improvements that exceeds \$2,000,000 in cost and is financed with System funds.
- 1.2 Minor Construction project: a project for the construction of new buildings, facilities or other permanent improvements that does not exceed \$1,000,000 in cost, or a project for the repair, renovation or rehabilitation of existing buildings, facilities or other permanent improvements that does not exceed \$2,000,000 in cost and is financed with System funds.
- 1.3 System funds: funds managed at the System level, including Available University Fund (AUF), Special Mineral Income Fund, Permanent University Fund (PUF) debt proceeds and Revenue Financing System (RFS) debt proceeds.

2. REVENUE FINANCING SYSTEM

2.1 Determination of the Need to Finance

2.1.1 Capital needs shall be determined as part of an on-going capital planning process that identifies the available resources of the System components. (See System Regulation 23.02.01, Capital Planning.)

2.1.2 Financing for capital needs is available through the RFS for all components of the System. When financing is anticipated for funding capital needs, the submission of Request for Revenue Financing System Funding (RFS Form 9201) is required as early in the planning process as possible. A fully executed RFS Form 9201 (including Chief Financial Officer (CFO) and Chief Executive Officer (CEO) signatures) will be required before the Program of Requirements (POR) is presented to the Board of Regents (BOR) 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 component and the System as a whole and the System Office of Treasury Services (OTS) shall work with the component to make the determination to finance.

2.2 RFS Form 9201- Request for Revenue Financing System Funding

2.2.1 General Procedures

2.2.1.1 The System component shall complete Section I of RFS Form 9201 and submit it to the OTS for processing.

2.2.1.2 The OTS shall provide a debt service schedule in Section II of RFS Form 9201 based on the funding needs submitted by the component. 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.

2.2.1.3 The debt service schedule(s) shall be returned to the component's CFO for review and adjustment if necessary. Approval to proceed with the financing shall require the signature of the OTS on Section II of RFS Form 9201 and the signatures of the System component CFO and CEO on Section III of RFS Form 9201. The original Section III shall be returned to the OTS.

2.2.2 The following provisions apply to Major Construction projects which are to be financed with System funds:

2.2.2.1 The System component shall contact the OTS in the earliest stages of capital needs identification to discuss financing alternatives.

2.2.2.2 The component shall submit RFS Form 9201 Section I for processing by the OTS prior to presenting the POR to the BOR. Projects may not be submitted for approval to the Facilities Planning and Building Committee of the BOR until RFS Form 9201 Section III has been returned to the OTS with proper signatures.

2.2.2.3 If conditions change significantly after the financing request is submitted, a revised RFS Form 9201 shall be submitted and the debt service shall be recalculated and re-approved.

2.2.2.4 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, then the previously agreed upon financing terms shall be recalculated to determine if the component has the capacity to finance the scope increase. A revised debt service schedule shall be transmitted under cover of RFS Form 9201 Section II, and RFS Form 9201 Section III must be signed and returned to the OTS by the component before an appropriation for the increased scope will be processed.

2.2.3 The following provisions apply to Minor Construction projects which are to be financed with System funds:

2.2.3.1 The System component shall contact the OTS in the earliest stages of capital needs identification to discuss financing alternatives.

2.2.3.2 The component shall submit RFS Form 9201 Section I for processing by the OTS prior to submitting Form C-1 or other initiating form. Upon receipt of a properly authorized RFS Form 9201 Section III, the OTS shall give notice in writing to the component that the funding is in order for project initiation to commence.

2.2.4 The following provisions apply to financed capital equipment:

2.2.4.1 The System component shall contact the OTS in the earliest stages of capital needs identification to discuss financing alternatives.

2.2.4.2 The component shall submit RFS Form 9201 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 BOR for an appropriation. Upon receipt of a properly authorized RFS Form 9201 Section III, the OTS shall give notice in writing to the component that the capital purchase appropriation process may continue.

2.2.4.3 The financing of capital equipment needs is usually most efficiently managed using a short-term debt instrument. Therefore, when a component chooses to follow through with a capital equipment financing, the component 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 is outstanding.

2.3 Annual Certification by Components

Each component 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 November 15 of each year and shall be used by the OTS as input for reporting the status of the RFS to the Vice Chancellor for Business Services, the Chancellor and the BOR. The certification shall include:

- (1) 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 component's current and future ability to pay for its share of debt service shall be required;

- (2) verification that the component has sufficient legally available funds for the next fiscal year's debt service and allocated expenses; and
- (3) verification that the component is in compliance with all bond covenants and System policies relative to the issuance of debt.

2.4 Annual Report on the Status of the RFS

The OTS shall compile the following information to be used by the Vice Chancellor for Business Services in reporting annually to the Chancellor and the BOR on the status of the RFS:

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

2.5 Payment of RFS Debt Service

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

2.5.2 Funding accounts that are identified and approved on RFS Form 9201 shall be incorporated into the annual budget process and transfers shall be authorized by each component. The OTS shall be responsible for preparing the annual debt service budget with discussion and concurrence from the components where necessary.

2.5.3 The following provisions apply to debt service funded with component local funds:

2.5.3.1 On or about every November 10th, until bond maturity, the interest for the next payment date and applicable annual paying agent fees shall be transferred by the component to its holding account on the System's books and in the Cash Concentration Pool (Pool). On or about every May 10th, until bond maturity, the interest and principal for the next payment date shall be transferred in the same manner.

- 2.5.3.2 The OTS shall calculate and prepare the transfer requests and shall notify the components in writing of the transfer amounts prior to the November 10th and May 10th dates. The CFO (or delegate) shall authorize the transfer of the funds within the Pool.
 - 2.5.3.3 Interest earnings on balances maintained in the Holding Accounts shall be considered when determining the amounts to be transferred. 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.
 - 2.5.3.4 Each November 15 and May 15 (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.
 - 2.5.3.5 For financings funded with short-term debt, the debt service payments shall be periodic and debt service funds shall be transferred from the component Holding Accounts on an as-needed basis. Programmatic principal payments shall be made annually on a scheduled short-term maturity date.
- 2.5.4 The following provisions apply to debt service funded with tuition revenue or AUF:
- 2.5.4.1 At the beginning of each fiscal year, the OTS shall transfer from the component to the System, appropriated tuition revenue funds for debt service associated with Tuition Revenue Bonds or Revenue Bonds.
 - 2.5.4.2 Concurrent with RFS debt payments, the OTS shall transfer from the component to the System, appropriated AUF for debt service associated with RFS bonds or commercial paper.
 - 2.5.4.3 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 ACH. The turn-around time for reimbursement is expected to be ten working days or less.
- 2.5.5 The following provisions apply to debt service associated with financed equipment funded with General Revenue:
- 2.5.5.1 When a component pledges general revenue for the purpose of paying debt service on financed equipment purchases, the component 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.

2.5.5.2 At the beginning of the fiscal year or on a debt service payment date, the OTS shall transfer from the component to the System, appropriated general revenue for debt service associated with RFS bonds or commercial paper.

2.5.5.3 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 turn-around time for reimbursement is expected to be ten working days or less.

2.5.5.4 Copies of USAS Budget Revision forms and appropriation reconciliations shall be mailed periodically to the participating components. Components should communicate all reconciling items related to this process to the OTS.

3. PERMANENT UNIVERSITY FUND

3.1 PUF Allocations

PUF allocations may not exceed 10 percent of the estimated total annual AUF income less PUF debt service. The OTS shall provide financial review of equipment allocation requests with consideration of unspent balances of previous equipment allocations when recommending allocations of PUF debt proceeds for equipment. The Vice Chancellor for Business Services shall review the requests with major consideration given to current System priorities of education, research and/or service. These two offices shall make recommendations to the Chancellor.

3.2 Payment of PUF Debt Service

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

3.2.2 For semi-annual bond debt service, AUF funds are transferred into the Interest and Sinking Fund account (Fund 0212) held in the State Treasury Debt service is processed via vouchers that directly charge this account. Payments may be delivered via ACH, wire transfer or with courier delivery directly to the paying agent.

3.2.3 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 (TTSTCo) are ordered via phone and fax 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 TTSTCo account for redeposit.

4. GENERAL DEBT MANAGEMENT

4.1 Construction Project Approval by the Texas Higher Education Coordinating Board (Coordinating Board) and the Reimbursement of Interim Component Local Fund Appropriations

4.1.1 Texas Higher Education Coordinating Board approval is required for System projects. If more than 50% of a Texas A&M University, Tarleton State University or Prairie View A&M University project is funded with PUF debt proceeds, the project is exempt from Coordinating Board review and approval; however, this exception must be fully documented in writing from the Coordinating Board.

4.1.2 RFS debt proceeds shall not be appropriated to a project prior to receiving Coordinating Board approval for the project when such approval is required. As such, components must provide interim funding to cover the initial outlays on a construction project such as soil testing, architect fees, asbestos abatement, etc.

4.1.3 Component funds may be factored into the total financing scheme and may be reimbursed with debt proceeds after the Coordinating Board 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.

4.1.4 When reimbursement is to occur, the Facilities Administration Division will cooperate with the component fiscal office and the System Office of Budgets and Accounting to effect the removal of expenditures and appropriations from the component's books and the subsequent transfer of the expenditures to the System books. 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 component in the Pool. Cash shall be transferred only to the extent that expenditures were incurred with component local funds.

4.2 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 components and SAGO will be sent to the SOBA. The SOBA will transmit debt service information to the components for inclusion in the annual operating budget.

4.3 Management of Debt Proceeds

4.3.1 Immediate and near-future 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.

4.3.2 Debt proceeds acquired to fund Major Construction projects shall be expended by the Facilities Administration Division. Debt proceeds acquired for equipment, land purchases, and component minor construction projects shall be handled between the System and the components through equity transfers of cash balances in the Pool. These equity transfers are to be submitted to the SOBA by the components concurrent with vendor payment processing.

4.4 Responsibility for Accounting

All debt-related calculations shall be performed by the OTS and in most instances, the originating accounting documents shall be prepared by the OTS and submitted to the SOBA for review and processing. 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.

4.5 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, in conjunction with the Facilities Administration Division and the component 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.

4.6 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.

4.7 Relationship with Rating Agencies

4.7.1 Regarding the short-term debt of RFS and PUF, the OTS, on a quarterly basis or as requested, shall provide the rating agencies with the following information:

- (1) the amount of Tax-Exempt Commercial Paper (TECP) outstanding at the end of the quarter;
- (2) the average maturity of TECP outstanding;

- (3) the range of interest rates on TECP issued during the quarter; and
- (4) a description of any instance where the dealer was unable to remarket maturing TECP.

4.7.2 The OTS shall notify the rating agencies if the amount of the System's investments in the Pool is reduced to less than \$200 million in market value on any day. This notification shall occur within two business days following such a reduction.

4.7.3 The System shall at all times maintain legally available fund balances at a minimum of 1.5 times the outstanding RFS TECP supported by the System's self-liquidity. At all times while there is outstanding RFS TECP in excess of 40% of the amount of TECP authorized under the RFS Program by the BOR, if all such outstanding RFS TECP were to become due and payable immediately, the OTS will assure that the amount available for borrowing under the liquidity agreement will be sufficient at that time to pay the principal of all such RFS TECP in excess of 40% of the amount of RFS TECP authorized, and interest thereon for 90 days computed at the rate of 15% per annum.

4.7.4 The OTS shall notify the rating agencies if the System's RFS Commercial Paper program is terminated.

4.8 Relationship with Texas Bond Review Board

The OTS shall be responsible for complying with Texas Bond Review Board Rules Sections 181.1 through 181.11, inclusive. All requests for information received from the Texas Bond Review Board shall be processed as expeditiously as possible.

CONTACT FOR INTERPRETATION: The System Office of Treasury Services

HISTORY: Last Version: November 5, 2001

[Section 23 Rules](#)