Austin Peay State University

Debt Management

POLICIES

Issued: February 2, 2017
Responsible Official: Vice President for Finance and Administration
Responsible Office: Business Services

Policy Statement

It is the policy of Austin Peay State University that debt management policies provide written guidance about the amount and type of debt it issues, the issuance process for such debt and the management of the debt portfolio.

Purpose

The purpose of this policy is to identify policy goals and demonstrate a commitment to long-term financial planning, improve the quality of decisions concerning debt issuance, and provide justification for the structure of debt issuance. Adherence to its debt management policy signals to rating agencies and the capital markets that the University is well-managed and should meet its obligations in a timely manner. Debt levels and their related annual costs are financial considerations that impact the use of current resources. An effective debt management policy provides guideline for the University to manage its debt programs in line with those resources.

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Introduction

A. Pursuant to T.C.A. § 49-3-1205(11), whenever the Board takes action under chapters 4, 7-9, and 12 of Title 49 to borrow money for any purpose, the Board must first seek the approval of the Tennessee State School Bond Authority (the "Authority"), created in 1965 under the Tennessee State School Bond Authority Act, T.C.A. § 49-3-1201 et seq. The Authority is a corporate governmental agency and instrumentality of the State of Tennessee whose purpose is to finance revenue generating capital projects for public institutions of higher education located in Tennessee by issuing its bonds and notes.

B. With the approval of the Authority, the Board reserves the right to utilize other borrowing methods should special circumstances arise.

C. The Authority finances a variety of revenue generating higher education projects including, but not limited to, dormitories, athletic facilities, parking facilities, student activities/recreation centers, research laboratories, and major equipment purchases. These projects stand in contrast to non-revenue generating capital projects for basic academic needs such as classrooms and libraries that are funded from the proceeds of the State's general obligation bonds issued by the State Funding Board and for which the University is not obligated to pay the debt service.

Goals and Objectives

A. The Board is establishing this debt policy as a tool to ensure that financial resources are adequate to meet the University's long-term debt program and financial planning.

B. In addition, this Debt Management Policy (the "Policy") helps to ensure that financings undertaken by the University satisfies certain clear objective standards designed to protect the University's financial resources and to meet its long-term capital needs.

C. This Policy coordinates with other policies of the University.
   1. The goals of this Policy are:

   a. To document responsibility for the oversight and management of debt related transactions;
   b. To define the criteria for the issuance of debt;
   c. To define the types of debt approved for use within the constraints established by the General Assembly;
   d. To define the appropriate uses of debt; and
   e. To minimize the cost of issuing and servicing debt.
2. The objectives of this Policy are:
   a. To establish clear criteria and promote prudent financial management for the issuance of all debt obligations;
   b. To identify legal and administrative limitations on the issuance of debt;
   c. To ensure the legal use of the Board's direct debt issuance authority;
   d. To maintain appropriate resources and funding capacity for present and future capital needs;
   e. To evaluate debt issuance options;
   f. To promote cooperation and coordination with other stakeholders in the financing and delivery of services;
   g. To manage interest rate exposure and other risks; and
   h. To comply with Federal Regulations and generally accepted accounting principles ("GAAP").

Debt Management

A. Purpose and Use of Debt Issuance
   1. Debt may be used to finance projects identified by the University. Projects are identified and .submitted annually to the Tennessee Higher Education Commission. After consideration by the Commission, these projects are incorporated into the State of Tennessee annual budget (as "disclosed projects"). From time to time, mission critical projects not considered as part of the annual process will be brought to the Commission by the Board (through University administration) for intra-year financing.
   2. Debt may be used to finance project costs which include all direct capital costs and indirect capital costs of projects, including but not limited to costs of construction and acquisition, costs of issuance of debt, funded interest on debt, and amounts to fund or replenish reserves, if and to the extent approved by the Authority. In compliance with Article II, Section 24 of the Tennessee Constitution, no budgeted operational expenditures (including internal employee labor) shall be reimbursed with debt proceeds unless such debt is retired/repaid within the fiscal year of issuance.

3. Prior to the issuance of bonds, bond anticipation notes may be issued for the payment of costs as authorized by the Authority.
4. Bonds may be issued to refinance outstanding debt.

B. Debt Capacity Assessment
   1. .This Policy requires the assessment of the debt capacity on a project by project basis as each project is considered. Debt capacity of each project is based on debt service coverage, which measures the actual margin of protection for annual debt service payments from the annual pledged revenue. Pledged revenue plus the pledge of legislative appropriations must meet a two times coverage test for a project to be approved for debt funding.
   2. Bond anticipation notes are limited to the amount stated in the related Resolution and/or Credit Agreement.

C. Federal Tax Status
   1. Tax-Exempt Debt
      a. The Board will use its best efforts to have projects eligible for financing with tax-exempt debt based on the assumptions that tax-exempt interest rates are lower than taxable rates and that the interest savings outweigh the administrative costs, restrictions on use of financed projects, and investment constraints.
   2. Taxable Debt
      a. The Board will agree to financing of projects with taxable debt when projects are not eligible to be financed with tax-exempt debt or when the administrative costs, restrictions on use of financed projects, and investment constraints outweigh the benefit of tax-exempt rates.

D. Legal Limitations on the Use of Debt
   1. Pursuant to T.C.A. § 49-3-1207(d)(4), limitations on the purpose to which the proceeds of sale of bonds or notes may be applied are contained in the resolution or resolutions authorizing the bonds or notes.
   2. No debt may be issued for a period longer than the useful life of the capital project it is funding.

Types of Debt

Pursuant to T.C.A. § 49-3-1207, the Authority is authorized from time to time to issue its negotiable bonds and notes. These include:

1. Bonds

a. The Authority may issue bonds, where repayment of the debt service obligations of the bonds will be made through revenues generated from specifically designated sources. The bonds will be special obligations of the Authority. These bonds may include, but not limited to:
    1. Fixed Interest Rate Bonds - Bonds that have an interest rate that remains constant throughout the life of the bond.
        1. Serial Bonds
        2. Term Bonds
    2. Variable Interest Rate Bonds - Bonds which bear a variable interest rate but do not include any bond which, during the remainder of the term thereof to maturity, bears interest at a fixed rate. Provision as to the calculation or change of variable interest rates shall be included in the corresponding Supplemental Resolution.
    3. Capital Appreciation Bonds - Bonds as to which interest is payable only at maturity or prior redemption of such Bonds or which bear a stated interest rate of zero. The corresponding Supplemental Resolution for the bonds will define the manner in which the period during which principal and interest shall be deemed to accrue, and the valuation dates for the bonds and the accreted value on the valuation date.
    4. Refunding Bonds - Bonds refunding the whole or a part of a Series of Bonds delivered on original issuance.

2. Short-term Debt
    a. The Authority may issue short-term debt, from time to time as needed to fund projects for the University during their construction phase. Such debt shall be authorized by resolution of the Authority. Short-term debt may be used for the following reasons:
        1. To fund projects with an average useful life of ten years or less; and
        2. To fund projects during their construction phase.
    b. These notes may be structured as Bond Anticipation Notes ("BANs") or short-term obligations that will be repaid by proceeds of a subsequent long-term bond issue or fees and charges from the borrowers. Typically these notes are issued during the construction period to take advantage of lower short-term interest rates. These notes may include:

1. Commercial Paper ("CP") – CP is a form of bond anticipation note that has a maturity up to 270 days, may be rolled to a subsequent maturity date and is commonly used to finance a capital project during construction. It can be issued incrementally as funds are needed.
2. Fixed Rate Notes – Notes issued for a period of time less than three years at a fixed interest rate.
3. Variable Rate Notes – Notes issued for a period of time less than three years which bear variable interest rates until redeemed. Provision as to the calculation or change of variable interest rates shall be included in the authorizing resolution.
4. Revolving Credit Facility – A form of bond anticipation note involving the extension of a line of credit from a bank. The bank agrees that the revolving credit facility can be drawn upon incrementally as funds are needed. The draws upon the line of credit may bear variable interest rates until redeemed. Provision as to the calculation or change of variable interest rates shall be included in the authorizing credit agreement.

Debt Management Structure

The Board, when requesting financing for a project, shall request the Authority to structure the funding:

1. Term
   a. All capital projects financed through the issuance of debt will be financed for a period not to exceed the useful life of the projects, but in no event will the term exceed thirty (30) years.
2. Financed (Capitalized) Interest
   a. From time to time certain projects may require the use of capitalized interest from the issuance date until the Board has beneficial use or occupancy of the financed project.
   b. Interest may be financed (capitalized) through a period permitted by federal law and the Authority's Second Program General Bond Resolution if it is determined that doing so is beneficial.
3. Debt Service
   a. Debt issuance shall be planned to achieve relatively net level debt service. The Board shall not use bullet or balloon maturities, absent sinking fund requirements, except in those instances where these maturities serve to make existing overall debt service level or to match a specific income stream.

b. No request shall be made to the Authority for debt to be structured with deferred repayment of principal unless such structure is specifically approved by affirmative vote of the members of the Board.

4. Call Provisions
   a. In general, the Authority's securities will include a call feature no later than ten (10) years from the date of delivery of the bonds. Call Features should be structured to provide the maximum flexibility relative to cost. The Authority will avoid the sale of long-term non-callable bonds absent careful evaluation by the Authority with respect to the value of the call option.
5. Original Issuance Discount/Premium
   a. Bonds sold with original issuance discount/premium will be permitted with the approval of the Authority.

Refunding Outstanding Debt

A. At least semiannually, Authority staff with assistance from the Authority's Financial Advisor analyzes outstanding bond issues for refunding opportunities, whether for economic, tax-status, or project reasons.

B. Consideration is to be given to anticipated costs and administrative implementation and management.

C. The Board (through University administration) shall report to the Authority a need for refunding when:
   1. The refunding of the debt is necessary due to a change in the use of a project that would require a change to the tax status of the debt.
   2. The project is to be sold or no longer in service while still in its amortization period.
   3. Restrictive Covenants prevent the issuance of other debt or create other restrictions on the financial management of the project and revenue producing activities.

D. The Board will request the refunding term to be no longer than the term of the originally issued debt.

Reserve Funds

A. Debt Service Reserve Fund
   1. The Authority's Second Program General Bond Resolution provides that a Debt Service Reserve Fund shall be established for each bond that is issued.
   2. If future Authority bond resolutions do not require such a reserve fund, this provision is not required.

B. Liquidity Facility

1. In the event the Authority shall utilize CP, the Authority may set up a liquidity facility to provide liquidity to securities that have been tendered. The liquidity facility may be in the form of a letter of credit, advance agreement or other arrangement that may provide liquidity.

C. Interest Rate Reserve Fund
1. The Authority establishes an interest reserve fund for the bond anticipation notes issued for each project. The interest reserve fund provides security for interest due on the bond anticipation notes such interest matures between billings.
2. The University will pay on a monthly basis based on the amount borrowed.
3. When the short-term debt for a project is either repaid or converted to bonds, the amount invested in the reserve fund will be credited back to the University.

Risk Assessment

A. University administration will evaluate each transaction to assess the types and amounts of risk associated with that transaction, considering all available means to mitigate those risks.

B. University administration will evaluate all proposed transactions for consistency with the objectives and constraints defined in this Policy.

C. The following risks should be assessed before issuing debt:
1. Change in Public/Private Use
    a. The change in the public/private use of a project that is funded by tax-exempt funds could potentially cause a bond issue to become taxable.
2. Default Risk
    a. The risk that revenues for debt service payments are not all received by the due date.
3. Liquidity Risk
    a. For variable rate debt, the risk of having to pay a higher rate to the Authority for the liquidity provider in the event of a failed remarketing.
4. Interest Rate Risk
    a. For variable rate debt, the risk that interest rates will rise, on a sustained basis, above levels that would have been set if the issue had been fixed.
5. Rollover Risk

a. For variable rate debt, the risk of the inability to obtain a suitable liquidity facility at an acceptable price to replace a facility upon termination or expiration of the contract period.

Transparency

A. As a public body, the Board shall comply with the Tennessee Open Meetings Act.

B. Additionally, the Board will assist the Authority in complying with U.S. Securities and Exchange Commission Rule 15c2-12, by providing certain financial information and operating data by specified dates, and to provide notice of certain enumerated events with respect to the bonds, if material. Such material events include:

1. Issuer's Counsel - The Authority will enter into an engagement letter agreement with each lawyer or law firm representing the Authority in a debt transaction. No engagement letter is required for any lawyer who is an employee of the Office of Attorney General and Reporter for the State of Tennessee which serves as counsel to the Authority.
2. Bond Counsel - Bond Counsel shall be engaged through the Office of State and Local Finance and serves and assists the Authority on all its debt issues under a written agreement.
3. Financial Advisor - The financial advisor shall be engaged through the Office of State and Local Finance and serves and assists the Authority on financial matters under a written agreement. However, the financial advisor shall not be permitted to bid on or underwrite an issue for which it is or has been providing advisory services.

Professional Services

A. From time to time the University uses its General Counsel for advice on aspects of a debt transaction; no engagement letter is required since General Counsel is an employee of the University.

B. Additionally, the Board relies upon advice from the Office of Attorney General and Reporter, with which no engagement letter is required.

Potential Conflict of Interest

A. If the University were to hire professionals to assist the University in a debt transaction, the professionals shall be required to disclose to the University existing client and business relationships between and among the professionals to a transaction (including but not limited to financial advisor), as well as the Authority.

B. This disclosure shall include such information that is reasonably sufficient to allow the University administration to appreciate the significance of the relationships.

Debt Administration

A. Planning for Sale
   1. The Board (through University administration) will provide all requisite information to the Authority to facilitate the compilation of data necessary for the Official Statement related to the bond issuance and bond underwriting.

B. Post-Sale
   1. The Board will (through University administration) ascertain that fees and charges are established at levels sufficient to meet the two times debt service coverage when combined with legislative appropriations.
   2. The Board will (through University administration) provide for timely transmission of requisite debt service payments as billed by the Authority.

C. Continuing Administration
   1. The Board (through University administration) will ascertain that facilities financed with tax exempt debt will be used in a manner such as to not jeopardize the exempt status of the issued debt.
   2. The Board (through University administration) will maintain the financed facilities in a prudent manner establishing maintenance reserves when necessary to preserve the viability of facilities.

Federal Regulatory Compliance and Continuing Disclosure

A. Arbitrage
   1. The Board will (through University administration) work with the Office of State and Local Finance to comply with arbitrage requirements on invested tax-exempt bond funds consistent with representations made in the relevant Tax Certificate.
   2. The Board will also retain all records relating to debt transactions for as long as the debt is outstanding, plus three years after the final redemption date of the transaction.

B. Generally Accepted Accounting Principles (GAAP)

1. The Board will comply with the standard accounting practices adopted by the Governmental Accounting Standards Board when applicable.

Review of the Policy

A. The debt policy guidelines outlined herein are intended to provide direction regarding the future use and execution of debt. The Board maintains the right to modify these guidelines in a manner similar to the original adoption of the Policy.

Revision Dates

APSU Policy 4:004 – Issued: February 2, 2017

Subject Areas:

Academic	Finance	General	Human Resources	Information Technology	Student Affairs
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Approved

President: signature on file