

1. Title

Debt Policy

2. Rule and Regulation

Sec. 1 Purpose. This policy governs the use of debt to finance capital projects within The University of Texas System. The prudent use of debt can help the U. T. System achieve its strategic objectives while maintaining a credit rating that appropriately balances financial flexibility with cost of capital.

Sec. 2 Financing Programs. The U. T. System issues debt through two primary programs: the Revenue Financing System (RFS) and the Permanent University Fund (PUF). This policy will govern the issuance of all U. T. System debt.

2.1 Revenue Financing System. The RFS was created by the Board of Regents through the adoption of a Master Resolution on February 14, 1991. The Board established the RFS to assemble the U. T. System's revenue-supported debt capacity into a single financing program to provide a cost-effective debt program to institutions of the U. T. System and to maximize the financing options available to the Board.

2.2 Permanent University Fund. [Article VII, Section 18](#) of the Texas Constitution authorizes the Board of Regents to issue bonds and notes secured by the U. T. System's interest in the Available University Fund (AUF). The AUF consists of distributions from the total return of PUF investments. The Texas Constitution limits the amount of PUF debt that may be issued by the U. T. System to 20% of the cost value of investments and other assets of the PUF. The Texas Constitution prohibits the issuance of PUF debt for auxiliary projects.

Sec. 3 Authority. All debt incurred by the U. T. System will be issued or incurred pursuant to resolutions approved by the Board of Regents and in accordance with the general laws of the State of Texas, including particularly [Article VII, Section 18](#) of the Texas Constitution, [Chapters 55](#) and [65](#) of the *Texas Education Code*, and [Chapters 1207](#) and [1371](#) of the *Texas Government Code*. Before any debt can be issued, the U. T. System must obtain an opinion from bond counsel that the issue complies with applicable Texas and federal laws. The U. T. System must also

receive the necessary approvals from both the Texas Bond Review Board and the Texas Attorney General.

- Sec. 4 Debt Guidelines. Any debt must be issued in strict compliance with applicable law. The following debt guidelines will apply:
- 4.1 Project Funding. The U. T. System will borrow money, through the issuance of debt, to finance only those projects that have been approved for financing by the Board of Regents. Capital projects are generally evaluated and prioritized through the U. T. System's Capital Improvement Program. For construction projects that require debt financing, bond proceeds will be provided only after design development approval and appropriation of funds by the Board.
 - 4.2 Interest Rate Exposure. System Administration's Office of Finance will evaluate and determine the appropriate amount of its interest rate exposure, defined as the possible increase in capital costs resulting from rising short-term interest rates. The U. T. System will limit its variable rate debt in accordance with rating agency guidelines for assessing the debt structure of peer institutions of higher education with comparable credit ratings. In determining the amount of variable rate debt, the Office of Finance will evaluate the level of variable rate assets that may be available to provide a natural hedge to interest rate fluctuations. The U. T. System will seek to minimize its cost of capital within a prudent level of exposure to interest rate volatility. The U. T. System shall broadly target variable rate debt of 30-50% of total outstanding debt.
 - 4.3 Amortization. The amortization of tax-exempt debt will be based on the types of assets financed, the expected availability of cash flows to meet debt service requirements, and tax regulations. Generally, the amortization of tax-exempt debt should not exceed the useful life of the financed asset and may never exceed the Internal Revenue Service limit of 120% of the useful life of the financed asset. The maximum maturity of RFS debt is limited to 50 years by [Chapter 55](#) of the *Texas Education Code*. The maximum maturity of PUF debt is limited to 30 years by [Article VII, Section 18](#) of the Texas Constitution.

- 4.4 Financial Ratios. The U. T. System will use selected actual and pro forma financial ratios, consistent with major credit rating agency criteria, to ensure the U. T. System is operating within appropriate financial bounds.
- 4.5 Economies of Scale. Debt financings will be coordinated to the extent practicable so that multiple project needs can be accommodated in a single borrowing, thereby increasing the efficiency of the debt issuance. Since many issuance costs do not vary with the size of a borrowing, a large bond issue increases the efficiency of the financing by spreading fixed costs over a greater number of projects.
- 4.6 Refunding Opportunities. The Office of Finance will actively consider refinancing of outstanding debt issues when net savings for that refinancing measured on a net present value basis are positive. Since there are limitations on the number of allowable refinancings, it is important to use refinancing opportunities wisely. In evaluating refunding opportunities, the Office of Finance will consider the value of the call option to be exercised, including the amount of time to the call date and the amount of time from the call date to maturity. Based on these and other factors, the Office of Finance will determine the minimum savings threshold for any particular refunding transaction. Refundings that do not produce savings may be considered under certain circumstances, such as eliminating restrictive bond covenants or other situations that produce a greater benefit to the U. T. System.
- 4.7 Disclosure. The Office of Finance will provide updated financial information and operating data and timely notice of specified material events to each nationally recognized municipal securities information repository and any State information depository, pursuant to its continuing disclosure undertakings with respect to [Rule 15c2-12](#) promulgated by the Securities and Exchange Commission.
- 4.8 Hedging Instruments. The Office of Finance will consider the use of interest rate swaps and other interest rate risk management tools after carefully evaluating the risks and benefits of any proposed transaction in accordance with

Regents' *Rules and Regulations*, [Rule 70202](#) titled *Interest Rate Swap Policy*. By using swaps in a prudent manner, the U. T. System can take advantage of market opportunities to minimize expected costs and manage interest rate risk. As outlined in Regents' *Rules and Regulations*, [Rule 70202](#), the use of swaps must be tied directly to U. T. System debt instruments. The U. T. System shall not enter into swap transactions for speculative purposes.

- 4.9 Project Financing. The Office of Finance will consider the use of project financing in those limited circumstances where the benefits of such a transaction exceed the increased costs. Project financing can be a useful financing technique in certain circumstances; however, these transactions are typically less efficient and more costly than traditional financing due to lower credit ratings, fewer economies of scale, the funding of a reserve fund, and the cost of bond insurance. Project financing does not preserve or increase debt capacity relative to traditional financing. The credit rating agencies and the U. T. System include project debt when assessing the debt capacity of institutions of the U. T. System.
- 4.10 Taxable Debt. The U. T. System may use taxable debt for those projects that have an intended use or other characteristics that preclude the use of tax-exempt debt. The U. T. System will strive to allocate its available resources, including equity capital, among its various capital projects to minimize or eliminate the need to issue taxable debt, thereby minimizing the U. T. System's cost of capital. Any use of taxable debt would be subject to the same statutory requirements as tax-exempt debt.
- 4.11 Reporting Requirements. The Annual Financial Report (AFR), prepared by the U. T. System and presented to the Board of Regents, will discuss the status of all outstanding bond and note indebtedness. The AFR presented to the Board provides detailed information on the U. T. System's outstanding bonds and notes including, by series, the amount outstanding, interest rates, maturity dates, a summary of the changes in outstanding indebtedness, and the associated debt service requirements.

3. Definitions

None

4. Relevant Federal and State Statutes

Texas Constitution [Article VII, Section 18](#) – Bonds or Notes Payable from Income of Available University Fund

Texas Education Code, Chapter 55 – [Financing Permanent Improvements](#)

Texas Education Code, Chapter 65 – [Administration of the U. T. System](#)

Texas Government Code, Chapter 1207 – [Refunding Bonds](#)

Texas Government Code, Chapter 1371 – [Obligations for Certain Public Improvements](#)

5. Relevant System Policies, Procedures, and Forms

Regents' *Rules and Regulations*, [Rule 70202](#) – Interest Rate Swap Policy

The University of Texas Systemwide Policy [UTS 193, Internal Lending Program](#)

6. Who Should Know

Administrators

7. System Administration Office(s) Responsible for Rule

Office of Business Affairs

8. Dates Approved or Amended

[Regents' Rules Revision History](#)

9. Contact Information

Questions or comments regarding this Rule should be directed to:

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