The University of Memphis Board of Trustees – Debt Management

The Board of Trustees, with prior approval as needed from the Tennessee State School Bond Authority (Authority), has the power to authorize the borrowing of money by the University of Memphis. This policy applies to external debt transactions of the University. Debt levels and their related annual costs are important financial considerations that impact the use of available resources. This debt management policy provides guidelines for the University to manage its use of debt in line with those resources.

I. Purpose

a. **Authority.** To establish approval authority for all debt arrangements.
b. **Policy Goals.** Identify policy goals and demonstrate a commitment to long-term financial planning and creditworthiness of the University.
c. **Justification.** Provide justification for the structure of debt issuance.
d. **Quality.** Ensure the quality of decisions concerning debt issuances
e. **Guidelines.** Provide guidelines for the use of debt financing for critical facilities, other real property improvements, equipment and capital leases, including the types of debt approved by the Authority and General Assembly.

II. Policy

a. **Debt Approval.** Debt obligations require approval of the Board of Trustees, except for leases. The Board delegates approval of leases to the President, subject to necessary State approvals. The Board of Trustees expects management to follow established guidelines when considering new borrowings.
b. **Tennessee State School Bond Authority.** 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 University 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. The Tennessee Board of Regents (TBR) entered into a Second Program Financing Agreement as of November 1, 1997 with the Authority for the financing of projects for public institutions. This agreement requires all debt transaction to be processed through the TBR.
c. **Financing Options.** With the approval of the Authority and any other required parties, the University reserves the right to utilize other borrowing methods should special circumstances arise, and authorization be provided. Borrowings may be pursued with approval from the Authority for limited special situation items such as specialized equipment with obsolescence risk, where equipment manufacturers provide financing, or other opportunities.
d. **Revenue Generating Activities.** Debt financing provided by the Authority is specifically authorized for revenue generating higher education projects generally included in the University's capital plan including, but not limited to, dormitories, athletic facilities, parking facilities, student activities/recreation centers, 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.
e. **Intercept of State Appropriations.** T.C.A. § 49-3-1206(b)(2) provides the Authority to intercept an institution's operating appropriation if any annual financing charges or administrative fees are not paid when due and payable. The operating appropriation of any and all TBR member institutions or Locally Governed Institutions may be intercepted

to remedy the inability of one member-institution to pay its prescribed annual financing charges and administrative fees.

III. Guidelines

a. Debt may be used to finance project costs which include all direct and indirect capital costs of projects including but not limited to costs of construction and acquisition, debt issuance costs, funded interest on debt and amounts to fund or replenish reserves, if and to the extent approved by the Authority.
b. Prior to issuance of bonds, Revolving Credit Facility debt may be issued for the payment of costs as authorized by the Authority.
c. No debt may be issued for a period longer than the useful life of the capital project it is funding, but in no event will the term exceed thirty years.
d. When beneficial, Financed (Capitalized) Interest is permitted from the issuance date until the University has beneficial use of the financed project.
e. Debt issuance shall be planned to achieve relatively net level debt service. The University shall generally 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.
f. Debt capacity/coverage will be assessed on both an individual project basis as well as overall debt exposure. The University measures capacity using various factors including Debt Service Coverage, Debt to Revenue, Spendable Cash to Debt and the Viability Ratio. Additionally, the debt capacity of each project is assessed based on the debt service coverage as defined by the Authority, which measures the actual margin of protection for annual debt service payments from the annual pledged revenue. The Authority requires a minimum one-to-one ratio between pledged revenue and annual debt service.
g. When economically beneficial, debt refunding will be considered, but may not extend the original length of the debt.
h. The University shall report to the Authority a need for refunding when:
    - 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.
    - The project is to be sold or no longer in service while still in its amortization period.
    - Restrictive covenants prevent the issuance of other debt or create other restrictions on the financial management of the project and revenue producing activities.
i. The University shall only pursue 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.
j. The University will work with the Authority to determine the type of debt used to fund the University's projects. The University will request funding through short term debt, as needed to fund projects during their construction phase and to fund projects with an average useful life or debt of ten years of less.

Effective Date/Revisions: March 6, 2019