

Texas Southern University
Debt Policy

August 2022

I. OVERVIEW

This statement is made with the purpose to govern the use of debt to finance capital projects for Texas Southern University. The prudent use of debt can help the University achieve its strategic objectives while maintaining a credit rating that appropriately balances financial flexibility with cost of capital.

Texas Southern University established March 3, 1947, whose legal address is: 3100 Cleburne Street, Houston, Texas, 77004, will hereafter also be referred to as the "University". Chapter 55 of the Texas Education Code was established to "acquire, purchase, construct, improve, renovate, enlarge, or equip property, buildings, structures, facilities, roads, or related infrastructure at an institution, branch, or entity of the University".

The Board of Regents of Texas Southern University may pledge irrevocably to the payment of these bonds all or any part of the revenue funds of Texas Southern University, including student tuition charges required or authorized by law to be imposed on students enrolled at the University.

This statement of objectives and guidelines is intended to provide meaningful guidance in the management of the University' s debt burden while achieving its strategic objectives while maintaining a credit rating that appropriately balances financial flexibility with cost of capital.

II. STATEMENT OF RESPONSIBILITIES

All debt incurred by Texas Southern University 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, Sections 17 of the Texas Constitution, Chapters 55 of the Texas Education Code, and Chapters 1207 and 1371 of the Texas Government Code. Before any debt can be issued, Texas Southern University must obtain an opinion from bond counsel that the issue complies with applicable Texas Public Finance Authority guidelines, Texas, and federal laws. The University must also receive the necessary approvals from both the Texas Bond Review Board and the Texas Attorney General.

A. The Board of Regents on behalf of Texas Southern University is responsible for:

1. Approving the debt policy.

2. Approving resolutions for debt issuance subsequent to Legislative Authority, and in accordance with general laws of State of Texas.

III. FINANCING PROGRAMS

The University issues debt through the Revenue Financing System (RFS), Higher Education Fund (HEF) and Private Placement loans or notes. This policy will govern the issuance of allthe University debt.

A. Revenue Financing System (RFS)

The Revenue Financing System was created by the Board of Regents of Texas Southern University on October 19, 1998 and on October 21, 1998 the Board of Directors of the Texas Public Finance Authority adopted a joint resolution establishing a consolidated revenue financing system to maximize the financing options available to the University. Bonds and eligible debt instruments are issued in accordance with general laws of the State of Texas, specifically Chapters 54 and 55 of the Texas Education Code, including sections 55.13(c) and 55.17891, and Chapters 1232 (the "Authority Act") and 1371, Texas Government Code and additionally pursuant to a Master Resolution as amended and supplemented from time to time.

B. Higher Education Fund (HEF)

Article VII, Section 17 of the Texas Constitution authorizes the Board to issue bonds and notes secured by pledged revenues consisting of up to 50% of the money allocated annually to the Board. Bonds issued under this authority are typically referred to as HEF bonds or Constitutional Appropriation Bonds. The proceeds from the sale of HEF bonds notes may only be used to finance eligible projects as described in Article VII, Section 17 of the Texas Constitution including (i) acquiring land, constructing and equipping permanent improvements, major repair and rehabilitation of permanent improvements, acquiring capital equipment, library books and library materials, and refunding previously issued HEF indebtedness; and (ii) major repair and rehabilitation of leased buildings or other permanent improvements, provided there is clear and adequate consideration to the University in the overall transaction, such as the existence of a lease of sufficient length to provide expected benefits which would justify the expenditure.

The Texas Constitution prohibits the issuance of HEF debt for maintenance, minor repairs, operating expenses, student housing, intercollegiate athletics, or auxiliary projects, except to the extent of a project's use for educational and general activities. HEF bonds must be competitively bid. HEF notes do not require competitive bidding.

C. Private Placement Loans or Notes

The Texas Constitution prohibits the issuance of Educational and General debt for student housing, intercollegiate athletics, or auxiliary projects, therefore, the Board of Regents may consider other financing options presented by the Administration. The University must also receive the necessary approvals from the Texas Bond Review Board, Texas Public Finance Authority, and the Texas Attorney General.

IV. DEBT GUIDELINES

Any debt must be issued in strict compliance with applicable law. The following debt guidelines will apply:

1. Project Funding

   Texas Southern University 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 University's long-term strategic plan. For construction projects that require debt financing, bond proceeds will be provided only after design development approval and appropriation of funds by the State of Texasor the project is self-supporting and demonstrates adequate net operating cash flow to service annual project debt service with a minimum 1.25x coverage.

2. Interest Rate Exposure

   The University Treasury Office will work with the University Financial Advisor to 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 University will limit its fixed and variable rate debt in accordance with rating agency guidelines for assessing the debt structure of peer institutions of higher education with comparable credit ratings.

   The University Treasury Office will work with the Financial Advisor of the University to evaluate the level of variable rate assets that may be available to provide a natural hedge to interest rate fluctuations. The University will seek to minimize its cost of capital withina prudent level of exposure to interest rate volatility. The University shall broadly target variable rate debt up to 30% of total outstanding debt.

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 Constitution. The maximum maturity of HEF debt is limited to 10 years by of the Texas Constitution promulgated by the Securities and Exchange Commission.

4. Financial Ratios

   The Revenue Financing System will use selected actual and pro forma financial ratios, consistent with the criteria of major credit rating agencies to ensure the System is operating within appropriate financial bounds. Although other ratios may also be evaluated, the primary financial ratios to be analyzed include the debt service coverage, the debt burden, and the leverage ratio. Individual revenue streams considered for proposed debt service must meet a 1.25x debt coverage ratio test.

5. Refunding Opportunities

The Treasury Office will 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 refinancing, it is important to use refinancing opportunities wisely. The following requirements must be met in the case of refunding:

- Policy - a current refunding must have net present savings of at least 3%
- Policy - an advance refunding must have net present savings of at least 5%
- Target - negative arbitrage should be no greater than 30% of present value savings unless other business reasons so dictate
- Issuance costs - should strive to realize economies of scale by combining refunding with new bond sales where possible.

In evaluating refunding opportunities, the Treasury Office 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 Treasury Office 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 theUniversity.

6. Reporting Requirements

The Annual Financial Report (AFR), prepared by Texas Southern University and presented tothe Board of Regents, will discuss the status of all outstanding bond and note indebtedness. The AFR presented to the Board provides detailed information on University 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

V. RELEVANT FEDERAL AND STATE STATUTES

- Texas Constitution Article VII, Section 17 - Colleges and Universities; Appropriations and Funding
- Texas Education Code, Chapter 55 - Financing Permanent Improvements
- Texas Government Code, Chapter 1207 - Refunding Bonds
- Texas Government Code, Chapter 1371 - Obligations for Certain Public Improvements

VI. APPROVAL

This statement will be reviewed annually by the Board of Regents of Texas Southern University and any appropriate modifications will be made. It is the responsibility of the Board of Regents to communicate such revisions, in writing to all University stakeholders. The Texas Southern University Debt Policy is hereby approved by a majority of the Regents of Texas Southern University.

Chairman, Board of Regents of Texas Southern University

President, Texas Southern University

Date of Board Approval

VII. CONTACT INFORMATION

Questions or comments regarding this Rule should be directed to

- Anita Lockridge – Interim Vice President for Finance: anita.lockridge@tsu.edu

VIII. REVIEW AND RESPONSIBLE PARTIES

Responsible Parties: **Treasury Department**

Review: **Annually**