

23.02.02 Debt Management Procedures

Revised [January 2, 2024](#)

Next Scheduled Review: January 2, 2029

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Regulation Summary

This regulation establishes the requirements and responsibilities of The Texas A&M University System (system) and its members as it relates to the management of the debt programs.

Definitions

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Regulation

1. REVENUE FINANCING SYSTEM (RFS)

1.1 Determination of the Need to Finance

- 1.1.1 Capital needs must be determined as part of an on-going capital planning process that identifies the available resources of the members.
- 1.1.2 Financing for capital needs is available through RFS for all members. When financing is anticipated for funding capital needs, the submission of a *Request for Revenue Financing System Financing* form is required as early in the planning process as possible. A fully executed *Request for RFS Financing* form [including member chief financial officer (CFO) and chief executive officer (CEO) signatures] is required before the project is presented to the Board of Regents (board) for approval of construction or the capital equipment or land is purchased. The decision to finance must be made only if it is in the best interest of the member and the system as a whole. The System Office of Treasury Services (OTS) must work with the member to make the determination to finance.

1.2 Request for RFS Financing Form

1.2.1 General Procedures

- 1.2.1.1 The member must complete a *Request for RFS Financing* form and submit it to OTS for processing.

- 1.2.1.2 OTS must provide a debt service schedule based on the funding needs submitted by the member. 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 must be factored into the financing calculation, when applicable. Interest rates reflect estimated rates based on a project's expected borrowing date(s).
- 1.2.1.3 The debt service schedule(s) must be returned to the member's CFO for review and adjustment if necessary. Approval to proceed with the financing requires the signature of OTS and the member CFO and CEO on the *Request for RFS Financing* form. The original or electronic copy of the *Request for RFS Financing* form must be returned to OTS.
- 1.2.2 The following provisions apply to major construction projects which are financed with system funds.
 - 1.2.2.1 The member must contact OTS in the earliest stages of capital needs identification to discuss financing alternatives.
 - 1.2.2.2 The member must submit *Request for RFS Financing* form for processing by OTS prior to presenting a construction award to the board. Projects may not be submitted for approval to the board's Committee on Buildings and Physical Plant until *Request for RFS Financing* form is returned to OTS with proper signatures.
 - 1.2.2.3 If conditions change significantly after the financing request is submitted, a revised *Request for RFS Financing* form must be submitted and the debt service must be recalculated and re-approved.
 - 1.2.2.4 If, during design or construction, a change in scope alters the total cost of the project by 10% or more and the change is financed, the previously agreed upon financing terms must be recalculated to determine if the member has the capacity to finance the scope increase. A revised debt service schedule must be provided to the member, and *Request for RFS Financing* form must be signed and returned to OTS by the member before an appropriation for the increased scope is processed.
- 1.2.3 The following provisions apply to minor construction projects which are financed with system funds.
 - 1.2.3.1 The member must contact OTS in the earliest stages of capital needs identification to discuss financing alternatives.
 - 1.2.3.2 The member must submit *Request for RFS Financing* form for processing by OTS prior to submitting Form C-1 or other initiating form. Upon receipt of a properly authorized *Request for RFS Financing* form, funding is available for the project.
- 1.2.4 The following provisions apply to financed capital equipment.

- 1.2.4.1 The member must contact OTS in the earliest stages of capital needs identification to discuss financing alternatives.
- 1.2.4.2 The member must submit *Request for RFS Financing* for processing by OTS prior to including any financed capital equipment in the applicable annual operating budget or prior to asking the chancellor or the board for an appropriation. Upon receipt of a properly authorized *Request for RFS Financing* form, funding is available for the capital purchase.
- 1.2.4.3 The financing of capital equipment needs is usually most efficiently managed using a short-term debt instrument. Therefore, when a member chooses to proceed with a capital equipment financing, the member is agreeing to make annual principal payments to the system and must bear the fluctuating market interest rates of the short-term debt instrument as long as the obligation of the member is outstanding.

1.3 Annual Certification by Members

Each member with RFS debt outstanding must prepare a fiscal year-end certification. The certification, signed and approved by the CFO and CEO, must be submitted to OTS no later than December 15th of each year and must be used by OTS as input for reporting the status of RFS to the chancellor and the board. The certification must include:

- (a) 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 member's current and future ability to pay for its share of debt service must be required;
- (b) verification that the member has sufficient legally available funds for the next fiscal year's debt service and allocated expenses; and
- (c) verification that the member is in compliance with all bond covenants and system policies relative to the issuance of debt.

1.4 Annual Report on the Status of RFS

OTS must compile the following information to be used in reporting annually to the chancellor and the board on the status of RFS.

- (a) the balance of RFS obligations outstanding at the beginning of the fiscal year and on the date of the report;
- (b) a listing of projected needs (by member and funding source) for the next year;
- (c) the amount of additional RFS obligations that must be necessary to fund the system's needs for the next fiscal year; and

- (d) a certification that members are current on debt service funding for outstanding RFS obligations. If a member is not in compliance, the steps being taken to bring the member into compliance must be included and reported monthly until compliance is achieved.

1.5 Payment of RFS Debt Service

- 1.5.1 OTS must process debt service payments as they are due. Funds to cover the debt service are the responsibility of each participating member.
- 1.5.2 Funding accounts that are identified and approved on the *Request for RFS Financing* form must be incorporated into the annual budget process and transfers must be authorized by each member. OTS must be responsible for preparing the annual debt service budget with discussion and concurrence from the members where necessary.
- 1.5.3 The following provisions apply to debt service funded with member local funds.
 - 1.5.3.1 On or about November 15th of each year, until bond maturity, the interest for the next payment date and applicable annual paying agent fees must be transferred by the member to its holding account on the system's books and in the Cash Concentration Pool (Pool). On or about May 15th of each year, until bond maturity, the interest and principal for the next payment date must be transferred in the same manner.
 - 1.5.3.2 OTS must calculate and prepare the transfer requests and must notify the members in writing of the transfer amounts prior to the November 15th and May 15th dates. The CFO or delegate must authorize the transfer of the funds within the Pool.
 - 1.5.3.3 Interest earnings on balances maintained in the holding accounts must be credited directly to the member's Pool position and not to the holding account. The allocation of earnings must be made using the dollar-days averaging method.
 - 1.5.3.4 Each November 15th and May 15th (or the actual debt service payment date) thereafter, the full debt service requirement must be transferred by the system from the holding accounts to the appropriate bond debt service payment accounts on the system's books.
 - 1.5.3.5 For financings funded with short-term debt, the debt service payments must be periodic and debt service funds must be transferred from the member holding accounts on an as-needed basis. Programmatic principal payments must be made annually on a scheduled short-term maturity date.
- 1.5.4 The following provisions apply to debt service funded with tuition revenue or Available University Funds (AUF).

- 1.5.4.1 At the beginning of each fiscal year, OTS must transfer from the member to the system appropriated general revenue funds for debt service associated with tuition revenue, capital construction assistance program or revenue bonds.
- 1.5.4.2 Concurrent with RFS debt payments, OTS must transfer from the member to the system-appropriated AUF for debt service associated with RFS bonds or commercial paper.
- 1.5.4.3 On scheduled bond or commercial paper debt service payment dates, OTS must initiate wire transfers from system local funds to the paying agents. Reimbursement vouchers are submitted to draw the state funds from the State Treasury. The turnaround time for reimbursement is expected to be ten working days or less.

2. PERMANENT UNIVERSITY FUND (PUF)

2.1 PUF Allocations

PUF allocations are included in the annual operating budget in amounts recommended by the chancellor.

2.2 Payment of PUF Debt Service

- 2.2.1 OTS must process debt service payments as they are due. Funds to cover the debt service are provided from the AUF.
- 2.2.2 For semi-annual bond debt service, AUF funds are transferred into the Interest and Sinking Fund account held in the State Treasury. OTS wires funds directly to the paying agent and requests reimbursement from the state. The turnaround time for reimbursement is expected to be ten days or less.
- 2.2.3 For payment of debt service on Subordinate Lien Notes or commercial paper, wire transfers of AUF held in the Imprest Account at The Texas Treasury Safekeeping Trust Company (TTSTC) are ordered 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 the TTSTC account for redeposit.

3. GENERAL DEBT MANAGEMENT

3.1 Construction Project Review by the Texas Higher Education Coordinating Board (CB) and the Reimbursement of Member Interim Local Fund Appropriations

- 3.1.1 A project application and supporting documentation must be submitted to the CB for review of projects as required and in compliance with CB rules. Per CB rules, if more than 50% of a project for Texas A&M University or Prairie View A&M University is funded with PUF debt proceeds or AUF, the project is exempt from CB review.

- 3.1.2 RFS debt proceeds must not be appropriated to a project prior to receiving board approval for the project when such approval is required. As such, members must provide interim funding to cover costs associated with developing the program of requirements for a construction project.
- 3.1.3 Member funds may be factored into the total financing plan and may be reimbursed with debt proceeds after 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.
- 3.1.4 When reimbursement is to occur, the System Office of Facilities Planning & Construction (FPC) cooperates with the member fiscal office and the System Office of Budgets and Accounting (SOBA) to effect the removal of expenditures and appropriations from the member's accounts and the subsequent transfer of the expenditures to the system accounts. Once the expenditures have been transferred, an equity transfer from debt proceeds will be initiated by SOBA and cash will be transferred back to the member in the Pool. Cash will be transferred only to the extent that expenditures were incurred with member local funds.

3.2 Annual Debt Service Budget

OTS is 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 members and System Offices are sent to SOBA. SOBA transmits debt service information to the members for inclusion in the annual operating budget.

3.3 Management of Debt Proceeds

- 3.3.1 Immediate and near-term cash needs for construction and equipment purchases will be covered with short-term obligations when economic conditions warrant the issuance of short-term debt. Likewise, long-term debt will be utilized when financially prudent.
- 3.3.2 Debt proceeds issued to fund major construction projects must be expended by FPC. Debt proceeds for equipment, land purchases and member minor construction projects must be handled between the system and the members through equity transfers of cash balances in the Pool. These equity transfers are to be submitted to SOBA by the members concurrent with vendor payment processing.

3.4 Responsibility for Accounting

All debt-related calculations must be performed by OTS. The originating accounting documents must be prepared by SOBA and submitted to OTS for review and approval. Reconciliation of all debt-related general ledgers is the responsibility of SOBA. Reconciliation of the subsidiary ledgers and the holding accounts asset balances in the Pool is the responsibility of OTS.

3.5 Arbitrage

OTS is responsible for ensuring that the system is in compliance with federal arbitrage regulations. Debt proceeds are invested to maximize earnings, while staying within the confines of the arbitrage regulations. To this end, OTS reviews the outflows of debt proceeds, recommends adjustments if necessary, and calculates arbitrage spending milestones. The Pool accounts containing debt proceeds are the official record of activity as it relates to arbitrage. OTS provides the necessary documentation to the financial advisor for the preparation of the annual arbitrage liability calculations, when required.

3.6 Continuing Disclosure

OTS works closely with bond counsel, the financial advisor and SOBA in an effort to comply with Securities and Exchange Commission Continuing Disclosure Rule 15c2-12, which became effective July 1995.

3.7 Relationship with Rating Agencies

3.7.1 Regarding the short-term debt of RFS and PUF, OTS, on a quarterly basis or as requested, provides the rating agencies with data and reports necessary for continued monitoring of the debt.

3.7.2 The system maintains legally available fund balances to meet the rating agency requirements of providing self-liquidity for RFS Commercial Paper supported by the system's self-liquidity.

3.7.3 OTS notifies the rating agencies if the system's RFS commercial paper program is terminated.

3.8 Relationship with Texas Bond Review Board

OTS is responsible for complying with Texas Bond Review Board Rules, as applicable. All requests for information received from the Texas Bond Review Board must be processed as expeditiously as possible.

Related Statutes, Policies, or Requirements

[19 Tex. Admin. Code § 17.20](#)

[19 Tex. Admin. Code § 17.21](#)

[Tex. Const., Article VII, § 17](#)

[Tex. Const., Article VII, § 18](#)

[Tex. Educ. Code, Ch. 55](#)

[Tex. Educ. Code, Ch. 61](#)

[Tex. Gov't Code, Ch. 1371](#)

[System Policy 23.02, Debt Management](#)

[System Policy 51.04, General Requirements and Delegations of Authority on Construction Projects](#)

Member Rule Requirements

A rule is not required to supplement this regulation.

Contact Office

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