BUSINESS AND FINANCE DEPARTMENT
General Accounting

Effective Date: February 20, 2026

DEBT MANAGEMENT POLICY

Number	502-01
Approval Authority	Board of Trustees
Responsible Administrator	Chief Financial Officer
Responsible Office	Business and Finance
Policy Contact	Controller

1.0 POLICY STATEMENT

The Tennessee State University Board of Trustees (the "Board"), with prior approval as needed from the Tennessee State School Bond Authority (the "Authority"), has the power to authorize Tennessee State University ("TSU" or the "University") to borrow money. This policy applies to the university's external debt transactions. 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 approve and manage its use of debt in line with those resources.

2.0 IMPORTANCE AND REASON FOR THE POLICY

Adherence to a 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 important long-term obligations that must be managed within available resources. An effective debt management policy provides guidelines for the University and the Board to manage its debt programs in line with those resources.

This policy also serves as a tool to ensure that financial resources are sufficient to meet the University's long-term debt program and financial planning objectives. In addition, the policy helps to ensure that financings undertaken by the Board satisfy clear, objective standards designed to protect the University's financial resources and to meet its long-term capital needs. Additionally, the policy addresses the following:

- **Authority:** Establishes approval authority for all debt arrangements and assigns responsibilities for review, recommendation, and authorization.

- **Policy Goals:** Identifies policy goals and demonstrates a commitment to long-term financial planning and the creditworthiness of the University.

- **Justification:** Provides justification for the structure of debt issuance.

- **Quality:** Ensures high-quality decision-making regarding debt issuances.

- **Guidelines:** Provides guidelines for utilizing debt financing for critical facilities, real property improvements, equipment, and capital leases. This includes specifying the types of debt approved by the Authority and the General Assembly.

3.0 DEFINITIONS

A. **Debt** – is generally defined as any obligation to repay borrowed money, including but not limited to loans, bonds, and other forms of borrowing. It represents a financial liability that requires a future payment, often with interest.

B. **Debt Capacity** – refers to the maximum amount of debt an entity can reasonably take on and manage, ensuring they can meet repayment obligations without financial strain.

C. **Taxable Debt** – (as in bonds) refers to a debt security (like a bond) whose return to the investor is subject to taxes at the local, state, or federal level, or a combination of these.

4.0 PROCEDURES

I. Introduction.

The Board adopts the following policies concerning debt management.

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 (Authority), created in 1965 under the Tennessee State School Bond Authority Act, T.C.A. § 49-3-1201 et seq. through the Tennessee Board of Regents (TBR). The Authority is a corporate governmental agency and instrumentality of the State of Tennessee, whose purpose is to finance capital projects for public institutions of higher education located in Tennessee by issuing its bonds and notes. TBR has entered into a Second Program Financing Agreement (Agreement) as of November 1, 1997, with the Authority for the financing of projects for public institutions.

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

C. The Authority has financed a variety of 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 could be contrasted with 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 public institutions are not obligated to pay the debt service.

II. Goals and Objectives.

A. The Board is establishing this 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 policy helps to ensure that financing 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 Tennessee 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).

III. 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 (the "Commission"). After consideration by the Commission, these projects are incorporated into the State of Tennessee's annual budget (as "disclosed projects"). From time to time, mission critical projects not considered 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 University's 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. The pledged revenue plus the pledge of legislative appropriations must meet a two (2) times coverage test for the 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. 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. 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(s) 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.

IV. Types of Debt.

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

B. The Chief Financial Officer, or designee, will work with the Authority concerning the type of debt used to fund the University's projects.

C. The Board 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 of ten (10) years or less.

V. Debt Management Structure.

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

1. Term. 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. Certain projects may require the use of capitalized interest from the issuance date until the University 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.

VI. 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.

VII. Reserve Funds.

A. Debt Service Reserve Fund

1. The Authority's Second Program General Bond Resolution establishes a Debt Service Reserve Fund to be set up 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. 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 Board will pay on a monthly basis based on the amount of loans issued.

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.

VIII. Risk Assessment.

A. The Assistant Vice President for University Design and Construction, subject to approval by the Chief Financial Officer, will evaluate each transaction to assess the types and amounts of risk associated with it, considering all available means to mitigate those risks.

B. The Assistant Vice President for University Design and Construction, subject to the approval of the Chief Financial Officer, will evaluate all proposed transactions for consistency with the objectives and constraints defined in this policy.

C. The following risks will be assessed before issuing debt:

1. Change in Public/Private Use. The change in the public or private use of a project funded by tax-exempt funds could potentially cause a bond issued to become taxable.

2. Default Risk. The risk that revenues for debt service payments are not all received by the due date.

3. Liquidity Risk. 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. 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. 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.

IX. Transparency.

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

B. Additionally, the University 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.

1. Issuer's Counsel: The Authority will enter into an engagement letter with each lawyer or law firm representing it in a debt transaction. An engagement letter is not required for lawyers employed by the Office of the Attorney General and Reporter for the State of Tennessee, which serves as counsel to the Authority.

2. Bond Counsel: Engaged through the Office of State and Local Finance, Bond Counsel assists the Authority on all debt issues under a written agreement.

3. Financial Advisor: Also engaged through the Office of State and Local Finance, the Financial Advisor assists the Authority on financial matters under a written agreement. The Financial Advisor is prohibited from bidding on or underwriting any issue for which it provides advisory services.

X. 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 the General Counsel is an employee of the University.

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

XI. Potential Conflicts 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.

XII. Debt Administration.

A. Planning for Sale.

1. The Board (through the University's Chief Financial Officer), 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 (through the University's Chief Financial Officer) will ascertain that fees and charges are established at levels sufficient to meet the two-time debt service coverage when combined with legislative appropriations.

2. The Board (through the University's Chief Financial Officer) will 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.

XIII. Federal Regulatory Compliance and Continuing Disclosure.

A. Arbitrage

1. The Chief Financial Officer, or designee, will 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 University will also retain all records relating to debt transactions for as long as the debt is outstanding, plus three (3) years after the final redemption date of the transaction.

B. Generally Accepted Accounting Principles (GAAP). The University will comply with the standard accounting practices adopted by the Governmental Accounting Standards Board when applicable.

5.0 AUTHORITY AND REFERENCES

References:

- Governmental Accounting Standards Board
- T.C.A. §§ 49-3-1201 et seq.; 49-3-1205(11); 49-3-1207(d)(4)
- Tennessee Open Meetings Act
- U.S. Securities and Exchange Commission Rule 15c2-12

6.0 HISTORY

N/A