Board Policy:

The purpose of this section is to establish guidelines for the prudent use and management of debt for the CSUS, including the recognition of the System’s consolidated revenue pledge.

Debt financing allows the Colorado State University System to finance the cost of capital improvements for one of its component institutions over a period of time typically related to the useful life of the asset. This is a financially prudent practice for certain types of capital investments when executed within appropriate loan covenant limitations and at favorable interest rates.

Debt financing may also be beneficial where the System invests in capital assets which further the mission of its institutions and provide revenue or cost savings which are greater than the cost of borrowing. Because debt capacity is limited, it is imperative that borrowings are for projects that directly support the vision, mission, and values of the CSUS and its strategic goals and objectives.

Decisions regarding the appropriate use of debt should be balanced to ensure the System’s financial health – as well as the financial health of its component institutions - while also considering the effects of current decisions on future costs of capital and operating budgets. Adherence to the following policies will ensure that risks associated with debt issuance are effectively managed.

Procedures:

A. Affordability

- When issuing debt, the System will seek the lowest-cost source of funding available commensurate with the most favorable financial terms, conditions, and risks that are consistent with the System’s capital structure and financing requirements.
- External borrowings will be coordinated to the extent practicable so that multiple project needs can be accomplished in a single borrowing, thereby reducing issuance costs.
The System will consider credit enhancement, such as bond insurance or letters of credit, when it is cost beneficial to do so and/or results in more favorable loan covenants.

All debt-financed projects must have an identified revenue stream and must be supported by an achievable plan of finance that includes servicing the debt and meeting any new or increased operating costs.

The cost of debt-financed capital acquisitions should be charged to the future users of the capital asset over the period the debt is outstanding and the asset's useful life (as legally permitted). The System may, however, issue debt for a term shorter than the asset's useful life.

All debt payments will be provided for in the annual operating budget.

**B. Debt Structure**

- Given the oftentimes strategic and financial value of variable rate debt, limited issuance is permitted if market conditions are appropriate, a variable rate debt management plan is in place, and such issuance furthers the System’s strategic goals.

- The financing mode, term, and financing instrument must be appropriate for the project(s) financed. Given the System’s credit consolidation efforts, the master revenue bond resolution is intended to be the primary debt issuance vehicle, however, certificates of participation, commercial paper, and separately secured bonds may be issued if the Board deems such issuance to be in the System’s best interest.

- The use of capitalized interest will only be considered for projects whose identified funding stream will not be able to immediately generate sufficient revenues to repay debt. In those instances, interest will not be capitalized for a period in excess of the construction period plus three months.

- The System’s debt capacity will be determined from time to time, giving consideration to bond rating agency input and related industry guidelines, with the goal of maintaining the then current credit ratings from each rating agency.

- The System shall evaluate, on a case by case basis, whether to utilize the Colorado Higher Education Intercept Program (or any successor programs) to provide credit enhancement to the System’s transaction.
C. Risk Management

- The System will consider refinancing outstanding debt only when savings for the refinancing, measured on a net present value basis, are positive, or when the refinancing accomplishes other strategic objectives including budgetary relief or reducing or eliminating future risks.
- The System’s cash flow procedures will be managed to ensure the timely payment of debt service.
- Compliance with debt reporting and financial covenants will be closely monitored and adhered to by the Chief Financial Officer with validation by external auditors.

D. Financing Procedures

- The Chief Financial Officer of the System will have responsibility for any debt financing and issuances of debt and will coordinate all related activities with the campuses.
- The Office of General Counsel has responsibility for all legal actions relating to any debt financing, including reviewing all documents and legal opinions, and determining the role of external legal counsel.
- The campus responsible for a proposed project will provide the Chief Financial Officer of the System the following information:
  - Total project cost.
  - At a minimum a 10 year pro-forma showing all available revenues, expenses, and net revenues available to pay debt service.
  - A coverage ratio calculation within the Pro-forma applied to each project whereby revenues for the project exceed expenses and debt payments by a minimum of twenty five (1.25) percent. Campuses may propose a lower debt coverage ratio but at a minimum must meet a ten percent threshold (1.10) on average.
  - Project time schedule;
  - A statement or certification to the CFO that a program plan was developed and approved by the board as required by Colorado Commission on Higher Education or the Capital Development Committee.
  - Evidence of necessary approvals from the board, Colorado Commission on Higher Education, Capital Development Committee and when
necessary the Joint Budget Committee before bonds may be issued for a project.
  o Other information, as requested.

- The System CFO in conjunction with the campuses will work with selected underwriters, financial advisors, bond counsel, and General Counsel to develop all necessary financial resolutions, policies, procedures, projections, and documents needed to successfully finance a project before the sale of bonds.
- The CFO of the System in consultation with the campuses, General Counsel, and the Chancellor will determine the best timeline and process for the Board to approve all necessary financing documents.
- The Office of General Counsel will assure that all legal opinions, bond documents, disclosure documents and any other required legal materials are satisfactory.

E. Procedures and Approvals for Refinancings
- The Chief Financial Officer will review any refinancing plan presented by the System’s underwriting team and/or its financial advisor and the assumptions upon which the plan is based, and determine whether it is in the best interests of the System;
- The Chief Financial Officer will work with departments affected by the refinancing to determine the best method for allocating savings.

F. Procedures and Approvals for All Financings
- The Chief Financial Officer will assure that any issuance of debt is structured cost effectively and in the best interest of the System, taking into consideration the Debt Management Policy;
- The Office of General Counsel will assure that all legal opinions, bond documents, disclosure documents and any other required legal materials are satisfactory;
- The Chief Financial Officer, in consultation with the Office of General Counsel, will assure that all materials necessary for the Board to complete its review of the financing are provided to the Board in a timely manner; and
The Board, upon a positive recommendation of the Finance Committee, will approve the bond purchase agreement and other financing documents.

G. Updates and Revisions
The System’s Chief Financial Officer shall review this Debt Management Policy at least annually and recommend any changes necessary to ensure that it continues to meet System objectives. The policy should also be reviewed as soon as practicable in the event of the significant changes in/of financial personnel or following any material changes to the System’s credit rating.

H. Post Issuance Compliance
The Board of Governors of the Colorado State University System (CSUS) borrows through the issuance of tax-exempt bonds to finance acquisition and construction of, and improvements to, many of its facilities and other capital projects. Investors in tax-exempt bonds (which include bonds, Variable Rate Demand Notes and tax-exempt commercial paper notes) are willing to accept a lower coupon rate because interest earned on tax-exempt bonds is exempt from taxation. This exemption translates into a lower cost of capital for the University. Various requirements must be satisfied, however, for tax-exempt bonds to maintain their tax-exempt status.

This section explains the guidelines and practices that the CSUS follows to remain in compliance with rules and regulations relating to tax-exempt bonds. Compliance is required both upon the issuance of the bonds and during the post-issuance phase which extends through and beyond the life of the bonds. An exception to these Guidelines may only be authorized by the System Post Issuance Compliance Coordinator, in consultation with the relevant University Post Issuance Compliance Coordinator and/or bond counsel based on a determination that such exception will not jeopardize the tax-exempt status of the applicable bond issue.

1. Roles, Responsibilities and Procedures
   ○ System Post Issuance Compliance Coordinator: The System Post Issuance Compliance Coordinator has primary responsibility on behalf of the System for post-issuance compliance efforts. The System Post Issuance Compliance Coordinator oversees the compliance program
and monitors and ensures that compliance tasks are performed in an appropriate and timely manner. The CSUS Chief Financial Officer is designated as the System Post Issuance Compliance Coordinator.

- **University Post Issuance Compliance Coordinator:** The University Post Issuance Compliance Coordinators have primary responsibility on behalf of Colorado State University or Colorado State University Pueblo, as the case may be, for post-issuance compliance efforts for their campus. The University Post Issuance Compliance Coordinators oversee various aspects of the compliance program for their campus as they monitor and ensure that campus based compliance tasks are performed in an appropriate and timely manner. The University Post Issuance Compliance Coordinators will perform such tasks and provide such information as the System Post Issuance Compliance Coordinator may request in support of the over-arching System post-issuance compliance efforts. The University Post Issuance Compliance Officer is to be designated by the President of each institution.

- **School and Department Responsibilities:** University or department senior finance officers have certain responsibilities with respect to capital projects and facilities financed with tax-exempt bonds. These individuals play a critical role in ensuring that their departments are in compliance with the Guidelines, and they are responsible for the accuracy and completeness of the information provided to their University Post Issuance Compliance Coordinator regarding the utilization of space. In addition, they are responsible for ensuring that their departments retain records for the appropriate timeframe. The Senior Finance Officers are designated by the respective University Post Issuance Compliance Officer.

### 2. Recordkeeping

The System seeks to comply with regulatory record retention requirements. Good record retention and documentation provide evidence of compliance and is the foundation of a successful bond compliance program. The System Post Issuance Compliance Coordinator shall establish operating procedures with respect to the maintenance of relevant records and shall
oversee compliance with such operating procedures.

3. Arbitrage Compliance
Arbitrage arises when proceeds from a bond issue are invested and the yield on the investments is greater than the yield on the bonds. The Internal Revenue Code contains two separate sets of requirements relating to arbitrage, yield restriction and rebate, which must be satisfied to ensure that the bonds do not lose tax-exempt status.

- **Yield Restriction**
  The arbitrage rules generally prohibit proceeds of a bond issue from being invested in a yield in excess of the bond yield.

- **Rebate**
  Rebate-even if an exception to yield restriction applies, if arbitrage is earned on an issue, the excess earnings must be remitted to the U.S. Treasury Department unless an exception to rebate applies.

The System Post Issuance Compliance Coordinator works in conjunction with the University Post-Issuance Compliance Coordinators to establish operating procedures with respect to arbitrage investment limitations and rebate requirements on behalf of the System. The System Post Issuance Compliance Officer shall oversee compliance with such operating procedures to avoid any investment or rebate compliance errors.

4. Expenditures and Assets
The System Post Issuance Compliance Coordinator will coordinate compliance for this area and in consultation with the University Post-Issuance Compliance Officers, may designate individuals on each/any campus to assist in achieving and maintaining compliance.

- **Allocation of Proceeds**
  Allocation of bond proceeds to capital projects is an important element in the ongoing compliance effort. The default methodology used for making an allocation of bond proceeds is “specific tracing,”
meaning the proceeds are deemed to be spent on the expenditures to which they are traceable. The System Post Issuance Compliance Coordinator will prepare or have prepared an allocation certificate to memorialize the expenditure of bond proceeds (and other funding sources, if any) on relevant projects. The Compliance Coordinator reviews and updates fields as necessary on a regular basis, until the bond proceeds are fully allocated and all projects have been fully funded.

Typically CSUS allocates equity or taxable debt to the portion of a project used for private use (if any exists), to minimize the private use of the bond, as documented in the allocation certificate.

- **Expenditure Policy**

  Applicable uses of System debt are documented in the System Finance Policy. Debt issuances must be approved by the Board of Governors.

5. **Private Use**

Definition: Private Use (PU) means the use of bond-financed property in a trade or business by any person or entity other than the borrower, a tax exempt affiliate of the borrower or a state or local government entity or by the borrower for an unrelated trade or business. PU is measured separately for each outstanding bond issue and is limited to 5% for qualified bonds. Because bond issuance costs are considered to be PU, the allowable PU of bond-financed projects is reduced by the proceeds spent on issuance costs capped at 2%.

- **Examples of Private Use:**
  1. Leases of university property to non-university entities
  2. Noncompliant management or service contracts
  3. Noncompliant sponsored research agreements
  4. Unrelated trade or business use by borrower
  5. Naming rights arrangements with a private user
Note: According to IRS regulations, activities are only PU if they are carried out in tax-exempt bond financed space.

- **Monitoring Private Use**
  
  It is the System’s general policy that private use in tax-exempt financed facilities should be avoided. It is also the System’s current practice to finance capital projects with a layer of non-tax-exempt debt including System funds or taxable debt where private use is expected to occur. At the time of tax-exempt bond issuance, the CSUS Post Issuance Compliance Coordinator with the assistance of University Compliance Coordinators will assess and quantify any potential PU in capital projects, and confirm that the equity contributions to the respective projects will be sufficient to cover such PU. The System Post Issuance Compliance Coordinator in consultation with the University Post Issuance Compliance Coordinators will establish a process for identifying and tracking existing PU for purposes of calculating, at least annually, the percentage of PU being conducted in bond financed projects per project and per bond issue. The University Post Issuance Compliance Coordinators, in consultation with the System Post Issuance Compliance Coordinator will each establish a process for their campus to review and approve/reject proposals that would result in PU being carried on in a tax-exempt bond financed space. Full information must be gathered prior to such decision-making, including the details and location of the (proposed) activity, the financing structures of the facilities in question, and information about other potential PU in those facilities. PU activity may be approved by the System Post Issuance Compliance Coordinator only if:

1. The capital project has enough equity (i.e., non-tax-exempt debt) to allow the potential PU to be fully allocable to equity.
2. Any allocation of potential PU to equity must not use up a
majority of the equity funding available for that project.

- **Remedial Action**
  Each University department using tax-exempt debt is responsible for notifying the University Post Issuance Compliance Coordinator, or designee, before there is a change in use of the project or facility financed with tax-exempt debt. In the event such a change in use may result in excessive PU for a bond issue, the System may avail itself of rules under Treasury Regulation section 1.141-12 which provide for "remedial action" by redemption or defeasance of nonqualified bonds. Remedial action, when properly taken, preserves the tax exemption of interest on the bonds. Failure to meet remedial action may result in significant penalties which will be borne by the University or department.

In limited circumstances, remedial action may be taken by applying disposition proceeds to other qualifying capital expenditures.

The System will seek the advice of borrower and/or bond counsel in the event remedial action may be required. To the extent a potential violation of PU rules arises that cannot be corrected through remedial action, or in the event of a potential arbitrage violation, the System will seek the advice of borrower and/or bond counsel concerning its alternatives, which may include approaching the Internal Revenue Service under the voluntary closing agreement program (VCAP).