

INDIANA UNIVERSITY

Office of the Treasurer

Institutional Capital Financing Credit Guidelines

September 2007

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1. Purpose, Authority, and Scope of Guidelines

- a. **Purpose** – The following Institutional Credit Guidelines exist to (i) provide external credit markets with assurance that the University, its Revenue Systems, its Campuses, and its Units for which external financing and debt obligations are outstanding are engaged in sound and proactive financial practices, resource management, and financial planning, (ii) promote and support the institutional mission by providing efficient and low-cost access to external capital financing, (iii) manage and limit debt portfolio risk to levels that are appropriate for the institution and the holders/owners of institutional debt instruments.
- b. **Authority** – These guidelines are an official extension of the Institutional Financial Policy VI-140, Capital Financing, which was reviewed by the Finance & Audit Committee of the Board of Trustees of Indiana University on March 2, 2006. Changes, modifications, or exceptions to these Guidelines can be made only with the approval of the Treasurer, the Vice President and Chief Financial Officer, and the President.
- c. **Scope** – These guidelines apply to all Indiana University academic, administrative, or auxiliary Units, Departments, Schools, Responsibility Centers, Campuses, Campus Revenue Systems, and Revenue Systems.

2. Indiana Statutory Requirements

- a. **Express Authority to Borrow Granted By Statute** – The University has no inherent authority to borrow, except as is expressly granted by the General Assembly under the Indiana Code. The Indiana Code (IC) provides limited authority to the University to issue external financing as noted below:
 - i. Student Fee Bonds: IC 21-34-6 (formerly 20-12-6), permits use of student fee bonds/notes that use student fees, and Fee Replacement Appropriation indirectly, as the source of repayment to finance facilities that are authorized by the General Assembly, that include academic and administrative facilities, libraries, laboratories, classrooms, utility infrastructure, and telecommunications infrastructure.
 - ii. Revenue Bonds: IC 21-35-3 (formerly 20-12-8) permits use of revenue bonds/notes, that use revenues from the type of facilities prescribed in the statute, and other Available Funds, as the source of repayment, to finance dormitories/student housing facilities, food service facilities, parking facilities, health service facilities including hospitals, and research facilities on the IU Bloomington and IUPUI Campuses.
 - iii. Dedicated Fee Bonds: IC 21-35-2 (formerly 20-12-7) permits the use of revenue bonds/notes that use a specific dedicated student fee as the revenue source of repayment to finance athletic facilities, field houses, gymnasiums,

student unions and halls of music. This statute is extremely dated and no bonds have been issued under this statute for 25 years.

- iv. Certificates of Participation: IC 21-33-3-5 (formerly 20-12-5.5) permits the university to (1) enter into lease-purchase agreements with affiliated organizations and then (2) sell proportional interests in the streams of leasehold payments from the University to the affiliated organization in the form of Certificates of Participation to investors. This form of financing relies on the payments for the long-term lease-purchase agreement as the source of repayment of the certificates. Facilities noted in section 1.a.ii., above may be financed in this manner.
- v. Interim Financing/Commercial Paper: IC 21-32-2 (formerly 20-12-9.5) permits the university to use debt in the form of temporary borrowing (e.g. commercial paper) in anticipation of future long-term borrowing for projects that are authorized under the above referenced borrowing statutes.

- b. Borrowing Authority is Project/Facility-Specific** – The statutory citations noted above requires that external financing must be project/facility-specific. Permanent borrowing to finance a pool of unspecified facilities is not permitted under the statute. However, commercial paper can be used to provide interim/construction period financing for a pool of projects, if all such projects have received the required approvals and authorizations.
- c. Authority to Borrow for Buildings and Capital Items Only** – The general statutory authority for state universities to borrow authorizes borrowing for the construction, purchase, or renovation of buildings and physical facilities, including such things as land, equipment, furnishings, and technology that are incorporated within and for the operation of such facilities. No statutory authority to borrow for working capital or operating purposes exists.
- d. Authorized Sources of Repayment** – Generally speaking, borrowing for academic and instructional facilities; athletic and recreational facilities; student union facilities; performing arts facilities; student activity facilities; administrative facilities and infrastructure projects is authorized under Indiana Code 21-34-6 which captures student fees as the source of repayment. Borrowing for certain auxiliary-type facilities, including parking, housing and dining, student health services, research facilities at IU Bloomington and IUPUI, is authorized under Indiana Code 21-35-3 which allows for the net income of related classes of facilities to serve as the source of repayment.
- e. All Borrowing Subject to Approval Processes Per Statute** – The Indiana Code provides that, in general, no borrowing transaction can take place without review by the Commission for Higher Education and the Indiana Finance Authority, and the approval of the State Budget Committee, the State Budget Director, and the Governor. Further, projects that are going to be financed with student fee bonds,

which generally includes all academic, administrative, and infrastructure financing, also require prior approval from the General Assembly, with a few limited exceptions including energy savings projects and small equipment notes. The Capital Financing Approval Process is described in more detail below.

- f. Forms of Debt Instruments** – Forms of borrowing that may be issued pursuant to the statutes noted above include bonds, notes, commercial paper, certificates of participation, and other forms of indebtedness.
- g. Leases** – Capital and operating leases are also considered forms of indebtedness under the Indiana Code and impact the overall credit-worthiness of the University as measured by external credit rating agencies. Lease transactions are subject to a discrete set of authorization limitations and approval processes that are somewhat distinct from other forms of external borrowing. Real property leases are overseen by the University Real Estate Office.

3. **Federal Statutory Requirements**

- a. Tax-Exempt Borrowing** - the Federal tax code and attendant Treasury regulations (the Code) provide for the University to issue tax exempt financing, subject to pre-and-post-issuance compliance with said regulations. Conditions that the University must certify to, and comply with, in order to issue tax-exempt financing and/or to maintain the tax-exemption of the financing for the full term of the debt, include:
 - i. Arbitrage Earnings on Proceeds of Borrowing Related Rebate Provisions - Earnings on proceeds from tax-exempt borrowing are subject to regulations that require that any earnings in excess of the Arbitrage Yield must be rebated to the IRS unless the use of the proceeds on building construction has met a 24-month spending timeline requirement that is included in the Code.
 - ii. Expenditure and Use of Financing Proceeds – Use of proceeds of tax-exempt financing must go for the purposes stated in the authorizing and enabling approvals, documents, and resolutions. Tax-exempt debt proceeds cannot be redirected to projects that were not part of the original scope of the financing.
 - iii. Useful Life of Facilities Being Financed – The useful life of the project or facilities being financed must exceed 120% of the weighted average maturity of the bonds issued to finance the project.
 - iv. Limitations on Private Use of Financed Facilities – Use of a facility financed with tax-exempt governmental debt, by a private party, is limited to 10% of the portion of the facility that was paid for with such debt. There are specific rules with respect to management contracts and private and federally funded research conducted in such space. These rules also provide for certain “safe harbor” provisions that may apply.

- v. Intent to Reimburse Expenditures – In any circumstance where it is the intention of the University to utilize the proceeds of tax-exempt borrowing, a Board resolution declaring the University’s intentions to reimburse itself in the future from bond proceeds will be entered into on a timely basis by the Board of Trustees in order to comply with federal and state tax rules.
- b. **Taxable Borrowing** – Taxable financing that is issued by the University is generally not subject to the restrictions noted in item 3.a. above. However, all other provisions of state law and most provisions of federal securities law apply to taxable borrowing.
- c. **Federal Securities Law Regulates Information Reporting on Borrowing** – Bonds issued by the University are considered “exempt securities” under federal securities laws. They are not subject to the registration and reporting rules that govern securities of public companies, but the anti-fraud provisions of these laws do apply to the University. Accordingly, the Securities and Exchange Commission has promulgated rules which apply to bonds issued by the University. Annual financial and operating information reporting, as well as “material event disclosure” requirements, must be complied with irrespective of whether borrowing is tax-exempt or taxable.

4. Capital Financing Approval Process

- a. **Legislative Authorization** – Debt financing for the purposes of acquiring academic and instructional facilities, athletic and recreational facilities, student union facilities, performing arts facilities, student activity facilities, and administrative facilities must have express approval from the Indiana General Assembly. Such financing will occur through issuing bonds secured by student fees and/or Student Fee Replacement Appropriation. Facilities that do not require the authorization of the Indiana General Assembly include projects that will be financed with bonds that will be repaid from the types of facility Net Income that is specifically identified in Indiana Code Section 21-35-3. Such facilities are limited to (a) dormitories and other housing facilities, (b) food service facilities, (c) student infirmaries and other health service facilities, (d) parking facilities in connection with academic facilities, and (e) research facilities used for (i) clinical, medical, scientific, or engineering research, and (ii) other similar qualitative, quantitative, or experimental research.
- b. **Trustee Project Approval** - The IU Board of Trustees must approve each project with the identification of an appropriate source of funding, such as Student Fee Bonds. The project is then submitted to the appropriate state agencies and offices by means of a letter to the Governor. This begins the review process that will culminate in approvals by the State Budget Committee, the State Budget Director, and the Governor.

- c. **Commission for Higher Education (CHE)** – The CHE staff review each project and recommend action to the State Budget Committee.
- d. **Indiana Finance Authority (IFA) and State Budget Agency (SBA)** – The IFA and SBA staffs review each project and associated plan of finance prior to the project being added to the official agenda of items on which the State Budget Committee will act. The IFA will conduct an additional review of the plan of finance immediately before, and in conjunction with the State Budget Director’s approval (see item “h” below).
- e. **State Budget Committee** – The State Budget Committee is responsible for reviewing and approving the actual construction project after receiving a recommendation from the Commission for Higher Education. The approval of the State Budget Committee typically includes a directive that the plan of finance proposed by the University is subject to review by the Indiana Finance Authority and approval by the State Budget Director.
- f. **Governor** – The Governor approves the project and type of financing/funding by signing the minutes of the State Budget Committee's meeting at which the project was approved.
- g. **Board of Trustees Financing Approval** – The full Board of Trustees or The Finance & Audit Committee if so delegated by the Board, will meet to review and approve the form of the debt to be issued and all related documentation.
- h. **State Budget Director Approval** – Prior to issuing the debt, the State Budget Director will review and approve the specifics of the financing plan. A formal letter is issued by the State Budget Director authorizing the University to issue the debt.

5. **Project Credit Review and Financial Performance Requirements**

- a. **Project-Specific Credit Assessment Requirements** – For all capital projects that may require external financing, the Treasurer will require the appropriate Unit, School, or Responsibility Center to submit through the Campus senior financial officer (Vice Chancellor or Vice President), a comprehensive pro forma financial projection that will extend over the proposed life of the financing being contemplated. Such pro forma projections will be in a format prescribed and/or approved by the Treasurer and will include, but not be limited to:
 - i. **Project Purpose** A statement that describes how the project under review will help in fulfilling the institutional mission and what institutional purposes will be realized as a result of the project. Institutional purposes may include, but are not limited to strategic initiatives, academic and research initiatives, enhanced institutional viability, preservation of existing

physical facilities, institutional security, emergencies, and regulatory compliance.

- ii. Funding Source Reconciliation A description of any University funds that will be used to pay for a portion of the project, including University general ledger account numbers, or IU Foundation account numbers, where funds are being held in reserve.
- iii. Assumptions A summary of all key financial and economic assumptions contained in the pro forma projections.
- iv. Pro Forma Cash Flow Projections For projects that will be financed in whole or in part by Consolidated Revenue Bonds, an integrated cash flow statement that projects the impact on operating cash balances. This statement must include Net Income (gross revenues less Operating & Maintenance Expenses), existing and projected debt service payments as provided by the Office of the Treasurer, and transfers to reserves for R&R and other purposes, over the life of the anticipated debt.
- v. R&R Reserve Activity and Balance Projections A statement that projects Repair & Replacement Reserve balances that is to include a long-term R&R expenditure projection and funding source projection, over the life of the anticipated debt.
- vi. Reserves Available for Debt Service A Statement that projects Reserves Available for Debt Service, at amounts not less than the minimum balances required under the Debt Service Coverage Test.

These pro forma projections will be vetted with the appropriate Office of the Vice President and Chief Financial Officer (VPCFO) Units as part of the financial review process. Approval to proceed with project financing by the Treasurer will be contingent on project achievement of specific financial performance requirements.

In the case of an extremely mission-critical project, the Treasurer may approve a project for external financing that does not comport to the financial criteria articulated in these guidelines. In such circumstances, the Treasurer must present a clearly articulated, written, justification for the exception, and must also receive the written approval of the Vice President & Chief Financial Officer and President, in order to proceed with developing a formal plan of finance.

- b. Project-Specific Financial Performance Requirements** – For any project that is presented to the Treasurer for review and preliminary approval of a plan of finance by a Unit, School, Responsibility Center, Campus Revenue System, or Revenue System, the following project-specific financial performance measurements must be achieved. For a project that will be part of a Campus Revenue System or Revenue System, these criteria shall be applied to those systems in their entirety, as if the project has been approved and financed at the appropriate time.

- i. Campus Debt Service Coverage Ratio Each appropriate Unit, School, Responsibility Center, Campus Revenue System, or Revenue System that

carries outstanding debt must maintain a Debt Service Coverage Ratio on an annual basis over the life of the financing of not less than 1.50. A credit of up to 0.25 toward the annual coverage ratio requirement will be allowed to the extent that Reserves Available for Debt Service are set aside in an amount equal to twenty five percent of the Annual Debt Service Requirement. This would result in a minimum of a 1.25 cover ratio from operations.

- ii. Campus Revenue System Debt Service Coverage Ratio A campus may allow a Campus Revenue System's annual minimum Debt Service Coverage Ratio to drop to 1.35 (gross of credit for Reserves Available for Debt Service) and 1.10 (net of the reserve credit) only on the condition that the cumulative Debt Service Coverage Ratio from operations for the Campus as a whole is not less than 1.25 per year.
 - iii. Campus Revenue System R&R Plan Test A campus and Campus Revenue System must present a currently updated 10-year R&R plan that identifies funding sources for the plan as well as anticipated expenditures and the facilities for which the funds will be spent. Such plans must be updated on not less than an annual basis.
 - iv. Additional Bonds Test – The Treasurer must validate prior financial performance at the Campus, Campus Revenue System and Revenue System levels before moving forward with the proposed project financing.
 - v. Competing Facility Test – The Treasurer must determine whether the facility for which financing is being proposed is a Competing Facility. If so, the Treasurer must confirm that such Competing Facility will not have a material effect on any of the calculations and tests noted above in section 5.a. or 5.b. of this document.
- c. **Semi-Annual Financial Performance Requirements** – the Treasurer will perform a series of reviews of the following financial performance requirements as follows:
- i. Budget Construction Review This review will be forward-looking with the test criteria being applied as part of the annual budget construction and/or rate approval processes, and shall typically occur during the 3rd quarter of the University fiscal year. For the purposes of complying with Indenture covenants for outstanding Student Residence Systems and Facility Revenue System bonds, an update to this review and analysis will occur not later than 60 days after the Trustees formally adopt the University operating budget for the ensuing fiscal year.
 - ii. Post-Closing Review The second such review will look at actual performance for the fiscal year immediately preceding. This test shall be conducted not more than 60 days after the close of the University fiscal year.

Both of the reviews noted above will be conducted at the Unit, Campus, System and University levels.

6. Credit Market Relationships

- a. External Credit Assessment** The Office of the Treasurer will engage in a formal review of the University's credit rating on a periodic basis, as deemed appropriate by the Treasurer. This review will incorporate the review and assessment of various aspects of the creditworthiness of the University including, but not limited to, areas such as strategic initiatives; student recruitment, enrollment and retention; research grants, expenditures and administration; development/fund-raising; financial performance; governance structure and significant organizational changes; investment and endowment portfolio structure and performance; capital financing portfolio structure and cost of capital; state and governmental relationships, the current fiscal health of the State, and comparisons to peer institutions.
- i. Peer Expert Engagement The Treasurer will engage as many other University Units in the review process as are needed to present a complete and accurate assessment of the University's operational and financial health, management and governance structure, and strategic plans & initiatives.
 - ii. Pre-Official Statement Review A review of the University's credit rating that is completed in conjunction with preparing the Official Statement for issuing bonds or tax exempt commercial paper may be considered as having fulfilled this requirement.
 - iii. Periodic Reporting on Creditworthiness Subsequent to the completion of such a review, the Treasurer will report on the general creditworthiness and credit rating of the University to the Finance & Audit Committee.
- b. Financial Service Providers** – The Treasurer shall coordinate the process of evaluating and selecting financial services providers with the University Purchasing department. Standard purchasing practices with respect to the use of Requests for Information (RFI) and Requests for Proposals (RFP) will be followed.
- i. Underwriting Team – The University will engage not fewer than two and not more than four investment banking firms of national reputation and standing to serve as senior underwriters and re-marketing agents on University bond issues. As a matter of practice, the University will engage an Indiana-domiciled investment banking firm and a minority or woman-owned investment banking firm as part of the underwriting team on all bond financing transactions. Designation of firms to serve as senior manager, co-senior manager, and co-managers will be at the discretion of the Treasurer, and subject to Board of Trustees approval on a transaction-by-transaction basis.
 - ii. Pre-qualification Process for Underwriters The University will undertake a qualification review and selection process with respect to prospective senior underwriting firms on a periodic basis. Such a pre-qualification process will be undertaken not less frequently than on a triennial basis. However, the

Treasurer may initiate such a process at any time as may be deemed prudent or necessary.

- iii. Bond and Tax Counsel Providers Selection of lawyers or law firms to provide bond counsel, tax counsel, underwriting counsel, and other legal services will be made by the Vice President and General Counsel, in consultation with the Treasurer.
- iv. Other Advisors and Consultants Standard purchasing practices shall be followed with respect to the review and selection of other financial advisors, swap/derivative advisors, and other financial service advisors and consultants.

7. Financing Instruments and Structures Standard Practices

- a. **Multi-Project Financing Preferred** –“Bundling” or combination of various project financing activities into fewer, larger financing transactions will be encouraged to enhance the efficiency of the debt issuance process, while being mindful of certain project- specific requirements that result in an exception to this practice.
- b. **Selection of Financing Mode** – All available modes of financing will be considered and analyzed relative to project financing in order to select the mode that is most appropriate and cost effective for the University. Each project financing analysis and evaluation will take into consideration the significant characteristics of all available modes of debt.
 - i. Fixed Rate Mode
 - 1. Provides a high level of budgetary certainty
 - 2. Has been the primary mode of financing that the State has preferred the University to use when issuing Student Fee Bonds that are eligible for Fee Replacement.
 - 3. Provides very little flexibility with respect to the timing of principal reduction or early prepayment of debt.
 - 4. Has historically been more expensive than variable rate financing.
 - ii. Variable Rate Mode
 - 1. Provides for less budgetary certainty
 - 2. Has historically been a less expensive form of financing than fixed rate instruments.
 - 3. Allows for more flexibility with respect to the timing and amounts of principal reduction,
 - 4. Generally requires more vigilant oversight and management than fixed rate debt.
 - iii. Synthetic/Swap Mode
 - 1. Synthetic fixed and synthetic variable rate debt structures may be used to manage interest rate risk, pursuant to statute, and will not be not be entered into for speculative purposes.

2. Synthetic fixed and synthetic variable rate debt structures will only be entered into pursuant to a properly executed International Swap and Derivatives Association, Inc (ISDA) master agreement and schedules.
 3. Synthetic fixed and synthetic variable rate debt that is achieved through the use of Swaps or other Derivative Products will be evaluated to assess how the underlying financing structure, as well as the synthetic structure that is created with a counter-party will perform under varying market conditions..
 4. Synthetics modes of debt will have a further level of analysis and review applied with respect to the following risks:
 - a. *Basis Risk* – The mismatch between actual variable debt services and variable rate indices used to determine Swap payments.
 - b. *Tax Risk* – The risk created by potential tax changes that could affect Swap payments.
 - c. *Counterparty Risk* – The failure of the counterparty to make required payments.
 - d. *Termination Risk* – Premature termination of a hedge position requiring one of the parties to the Agreement to make termination payment and the ability to enter into an equivalent substitute transaction.
 - e. *Liquidity Risk* – The inability to access or renew a liquidity facility when required, e.g., upon premature termination of a swap.
 - f. *Credit Risk* – The occurrence of an event modifying the credit rating of a counterpart or otherwise lowering its creditworthiness.
- c. Variable Interest Rate Risk Mitigation** – Use one or more measures that will mitigate the long-term risks associated with variable rate bonds. Such measures may include, but are not limited to, the following:
- i. Cost of Capital Equivalent Charge Use a charge to Revenue Systems, Campuses Revenue Systems, and other Units that are carrying variable rate debt an annual debt service payment that will be based on the approximate institutional cost of capital rate, which rate shall be recalculated by the Treasurer’s Officer on not less than an annual basis.
 - ii. Accelerated Principal Reduction Use any excess funds that have accumulated in debt service funds to make accelerated reductions of principal, on an annual basis prior to fiscal year end.
 - iii. Rate Stabilization Reserve Use a predetermined percentage of the Debt Service Charge made to each Revenue System, Campus or Unit to fund an Interest Rate Stabilization Reserve. This reserve will provide an internal hedge against significant interest rate spikes in the event that the University

has variable rate debt instruments outstanding without a rate cap, swap or in place.

- d. Use of Gifts, Grants, Reserves and Other Forms of Equity Capital** – Uses of gifts, grants, cash reserves and other forms of equity capital as a component of capital project financing are commonplace, and are addressed at a high level in the Capital Financing policy.
- i. Project Financing Cash Flow Analysis When a capital project uses cash reserves, gifts, or grant funding as one of the financing components, the Treasurer’s Office will incorporate those funds in a master project cash flow analysis that will be incorporated in the planning process.
 - ii. Coordination of Project Funding Sources When a capital project uses cash reserves, gifts or grant funding as one of the financing components, the Treasurer’s Office will work with the Office of the Vice President and Chief Administrative Officer and the appropriate Unit and Campus to coordinate the application of funding sources in a manner that will seek to optimize earnings on reserves, gift and grant funds, while insuring compliance with the relevant federal tax rules.
- e. Tax Status of Financing** – Issue tax exempt financing unless expected future uses of financed facilities by third parties will not comply with Private Use Safe Harbors, or other legal, market, tax, or timing issues favor taxable financing.
- f. Cost of Issuance** –Recover any direct debt issuance costs through direct reimbursement of costs of issuance from proceeds of the financing. Cost of issuance which may be reimbursed to the University include, but are not limited to, bond and tax counsel fees, financing-specific advisor or consultant fees, rating agencies fees, certain credit facility and credit enhancement and remarketing fees that have a causal relationship to the debt issues, and direct personnel costs incurred by the University and its service providers.
- g. Credit Enhancement** –Conduct a transaction-by-transaction assessment of the relative value and net benefit to the University of using credit enhancement tools, including but not limited to direct-pay letters of credit, lines of credit, credit support facilities, bond insurance, and surety policies.
- i. Self-Liquidity The University will conduct a periodic cost/benefit analysis with respect to using components of the University’s cash and investment portfolios to provide self-liquidity for certain variable rate and interim financing transactions.
- h. On-Going Cost of Financing** – On-going costs of financing incurred over the life of the debt, such as remarketing fees, bank trust fees, and rating agency surveillance fees

will be paid for over the life of the debt as a component of the financing costs that will be charged to Units.

8. **Compliance and Reporting**

- a. **Tax Exempt Bond Compliance** –Comply with the Code and attendant Treasury regulations with respect to any University tax exempt financing. The Treasurer will take any action necessary to maintain and preserve the tax exempt status of any University issued Governmental Bonds or 501(c)(3) Bonds. Specific aspects of such compliance efforts conducted by the Office of the Treasurer will include the following:
- i. **Arbitrage, Proceeds Expenditure, and Rebate Compliance** - Calculate and track investment earnings on all proceeds from tax-exempt financing, as well as the rate of expenditure of proceeds as required in the Code and related regulations.
 - ii. **Private Use Compliance** – Conduct an institution-wide Private Use analysis, and track and monitor Private Use calculations over the life of all bond issues that are finance with tax-exempt financing. Such review shall occur on not less than an annual basis.
 - iii. **Document Retention** – Maintain paper and/or digital records of all financing transactions for a period of time not less than the life of the appropriate financing transaction, plus three years.
 - iv. **Tax Counsel** – Engage counsel to provide a tax review, and opinion where appropriate, with respect to compliance with tax exempt financing rules and regulations.
- b. **Outstanding Indenture Compliance** –Comply with all covenants, pledges and commitments made to bondholders, trustees, or other third parties, which are contained in any Indenture of trust that the University has entered into with a trustee bank for the purposes of issuing bonds.
- c. **Securities & Exchange Commission Reporting** –Comply with all Securities & Exchange Commission reporting and filing rules and requirements to which issuers of bonds and other forms of marketable debt obligations and securities are subject.
- d. **Compliance Calendar** –Prepare and maintain a comprehensive annual calendar of legal, tax, regulatory, and other external compliance and reporting requirements. The calendar will serve as the primary compliance and reporting planning and scheduling tool for the Office of the Treasurer, and will be updated by said office on not less than an annual basis.

9. **Accounting and Internal Controls**

- a. **Debt Service Payment Schedules** – Provide debt amortization and repayment schedules to all Revenue Systems, Campuses, and Units for which bonds are outstanding. Schedules for variable rate debt will be updated annually, by the Office of the Treasurer, prior to the start of each Campus’ rate setting process.
- b. **Due Diligence** –Engage in prudent internal control practices and procedures designed to insure the complete and timely payment of debt service obligations, the preservation and protection of University assets, and the accuracy of accounting and financial transactions and reporting. Office of the Treasurer practices and procedures are as follows:
 - i. Monthly Reconciliation Produce a monthly reconciliation of all general ledger accounts that are the responsibility of the Director of Debt Management as Fiscal Officer and the Director of Finance.
 - ii. Quarterly Reporting Produce a quarterly report on the status of the University’s debt portfolio, including external financing and internal lending activity and related balances.
 - iii. Treasury Procedures Manual Requirement Produce, maintain and update a procedures manual that will document accounting, transaction processing, and other general business practices.

10. Financial Planning and Measurement

- a. **Institutional Credit & Financial Analysis Tool** – Maintain one or more institutional financial planning tools that can be used for long-term institutional planning, as well as assessing the various components that combine to produce the University’s overall credit profile. These tools will include, but not be limited to, (i) a 10-Year Capital Financing Plan Projection, and (ii) a 10-Year Balance Sheet and Net Asset Projection.
- b. **Annual Financial Operations Review** – Conduct an evaluation of the University’s financial operations performance including, but not limited to, trend and peer institution analyses. As required by policy, the Treasurer will, at a minimum, evaluate financial performance ratios that include (i) Total Resources to Debt Ratio, (ii) Expendable Resources to Debt Ratio, (iii) Debt to Cash Flow Ratio, and (iv) Debt Service to Operations Ratio. These ratios will be calculated based on information derived from the University’s annual audited financial statements, and the calculations and definitions of these ratios will be made consistent with standard industry and credit market analytical practices.

11. Definitions

- a. **Additional Bonds Test** – Financial viability test that is applied to Units, Campus Revenue Systems, and Revenue Systems on an annual basis. The guideline test to issue additional revenue bonds, the ratio of the immediately preceding fiscal year actual university Net Income, as defined herein, to the annual debt service

requirement for revenue bonds outstanding must equal 1.1 or higher. The guidelines test to issue additional student fee bonds, the ratio of the immediately preceding fiscal year actual student fees to the annual debt service requirement for student fee bonds must equal 2.0 or higher. The purpose of this test is to “look back” and validate that financial performance has been sufficient to support the authorization of additional bonds for additional facilities that will be financed with bonds. This test is to be completed on an as-required basis on the occasions that the University plans to issue additional Facility Revenue Bonds, Student Fee Bonds, or Student Residence System Bonds. This test is to be completed on an annual basis to comply with the Capital Financing Policy and Institutional Credit Guidelines with respect to all University bonds, including Consolidated Revenue Bonds.

- b. Available Funds** – Funds that are legally available to make debt service payments on debt obligations issued by the University. Such funds include but are not limited to (i) the Net Income from the various Units, Campus Revenue Systems and Revenue Systems that are subject to the legal requirements of University revenue bond Indentures, (ii) any and all other funds of the University that are legally available for debt service payments. Available Funds, as described in clause (ii) above, include (but are not limited to) unrestricted operating fund balances, auxiliary fund balances, certain other fund balances of the University and certain invadable quasi-endowment fund balances of the IU Foundation, in each case without any priority among any such fund balances and only to the extent not pledged, restricted, or specifically authorized for other purposes or otherwise restricted by law. Available Funds does not include student fees pledged for other purposes or otherwise restricted by law; revenues already encumbered under University bond Indentures, other specifically identified revenues or funds pledged or otherwise dedicated or restricted for other purposes, or moneys appropriated by the Indiana General Assembly and specifically authorized for other purposes or otherwise restricted by law
- c. Bonds** – Any debt obligation including bonds, notes, temporary, interim or permanent certificates of indebtedness, debentures, certificates of participation in capital leases, or other obligations payable.
- d. Campus Revenue System** – A Campus-specific component of an institutional Revenue System.
- e. Code** – The Internal Revenue Code, attendant Treasury regulations, and related interpretive guidance published by the Internal Revenue Service.
- f. Credit Facility** – An irrevocable letter of credit (liquidity facility), line of credit, insurance policy, guaranty or surety bond, or similar instrument providing for the payment of or guaranteeing the payment of principal or interest on Bonds or Optional Maturities when due.

- g. Competing Facility** – A building or structure which when acquired or constructed may be in operational competition with facilities that are already part of existing Revenue Systems.
- h. Debt Service Coverage Test** – A financial viability test that is applied to Units, Campus Revenue Systems and Revenue Systems on a periodic basis. The purpose of the test is to provide assurance that prudent fiscal management and oversight takes place in such Units or systems that operate in facilities for which bonds are outstanding. The test is completed on an annual basis, no later than sixty (60) days after the adoption of the University’s official budget for all operations, in order to comply with the legal covenants with respect to Facility Revenue Bonds, Student Fee Bonds, and Student Residence System Bonds. This test is to be completed on a semi-annual basis to comply with the Capital Financing Policy and Institutional Credit Guidelines with respect to Consolidated Revenue Bonds.

The test requires that the Office of the Treasurer must calculate Net Income, Annual Debt Service Requirements, Other Uses of Net Income, and Reserves Available for Debt Service, and then calculate the Debt Service Coverage ratio for each Unit, Campus Revenue System and Revenue System. The minimum calculated ratio must not be less than 1.25 when calculated as described below: the numerator of the ratio consists of the sum of Net Income plus Reserves Available for Debt Service; the denominator of this ratio consists of the sum of the Annual Debt Service Requirement plus Other Uses of Net Income.

If the Debt Service Coverage Test produces a ratio of less than 1.25 on a University-wide basis with respect to the Student Residence System Bonds or the Facility Revenue System Bonds, such an occurrence constitutes a curable event of default under certain of the University’s bond Indentures.

- i. Derivative Products** – Contractual arrangements which create a synthetic bond structure, including but not limited to, rate swap agreements, basis swaps, forward rate agreements, rate cap agreements, rate flow agreements, rate collar agreements, or any other similar agreements (including options to enter into any such agreements).
- j. Fee Replacement Appropriation** – The General Assembly may choose to provide direct funding support for debt that is payable from student fees, through a biennial appropriation called "fee replacement appropriation" which, in effect, reimburses state universities for student fees used to pay debt service specific buildings. Fee Replacement Appropriation is unique and distinct from other forms of state appropriations for operations, repair & replacement, and other forms of special appropriations that are made state universities. The unique and distinct nature of Fee Replacement Appropriation, i.e. it is not co-mingled with other forms of state appropriations is critical to the credit strength of the University.

- k. Financing Expenses** – Any fees or expenses related to the acquisition of any Derivative Products, Credit Facility, or the costs of providing any other form of credit enhancement, including any investment earnings on bond proceeds that have to be rebated to the Federal government.
- l. 501(c)(3) Bonds** – A bond or debt instrument issued by the University based on the University’s status as a charitable educational organization that is exempt from Federal income tax Section 501(A) and Section 501(c)(3) of the Code.
- m. Fixed Rate Bond** – A bond or other debt instrument that is issued at a fixed rate of interest to the final maturity of such bond.
- n. Governmental Bonds** – A bond or debt instrument issued by the University based on the University’s status as an “instrumentality of the state of Indiana” and its corresponding exemption from Federal income tax under Section 115 of the Code.
- o. Indenture** – A legal contract between the University and a trustee bank on behalf of the owners of bonds that the University issues. The Indenture outlines responsibilities of the University as a borrower/issuer of bonds and the bank as trustee on behalf of the owners of the bonds.
- p. Liquidity Facility** – A line of credit or similar instrument providing for the payment of the Purchase Price (as such term may be defined in a Supplemental Indenture) on Bonds when due.
- q. Net Income** – All gross revenues of a Unit, Campus Revenue System, or Revenue System, including rents, fees, rates, fines, and any other charges for the use of such facilities or the sales of good and services provided through the use of such facilities; less ordinary and necessary Operating & Maintenance expenses and Financing Expenses, as defined herein.
- r. Operating and Maintenance Expenses (O&M)** – All current expenses of a Unit, Campus Revenue System or Revenue System operation, including but not limited to personnel and benefit expenses, contractual services, supplies, routine maintenance including incidental repairs, and general administrative expenses that are reasonably allocated to the Revenue System by the University. The University may furnish heat, light, power, and other utility services to any of the Revenue Systems either with or without charge. If utilities are provided without charge, the cost cannot be included in O&M. If the utilities are provided for a fee, that fee must be included in O&M. O&M does not include charges for depreciation for purposes of these guidelines.
- s. Other Uses of Net Income** – An amount that is spent during a given fiscal year from the Repair and Replacement reserves (R&R) of a Unit, Campus Revenue System or Revenue System, in excess of the beginning balances in those reserves as of July 1 of

that same fiscal year. Other Uses of Net Income serve to increase the denominator of the Debt Service Coverage Test calculation and to create an incentive to Revenue Systems to provide adequate funding on an on-going basis to R&R reserves, and a disincentive to under-fund or overspend R&R reserves in any given fiscal year.

- t. Private Use** – The use of space, facilities, or equipment that have been acquired in whole or part through proceeds of tax-exempt bonds, by a private for-profit business, certain private non-profit organization [501(c)(3) or otherwise], or an agency of the federal government. For the purposes of these guidelines, the above users of space, facilities, or equipment that has been financed with tax-exempt bonds are referred to as “private users”. Private users do not include state or local governmental Units, or any private person acting solely and directly as an officer or employee of or on behalf of the academic institution or another governmental Unit. Private Use that constitutes more than 10% of use of a tax-exempt financed facility over the life of the tax-exempt bonds, as measured by assignable square footage or other cost/effort measurements, will cause the bonds to lose their tax-exempt status.

Private business use exists when there is direct or indirect use by one or more private users in a manner or on a basis different than normal use of that space or facility or program by the general public (general public includes students, faculty and staff)

- i. Private Business Use Private business use will generally occur if any of the following exist:
 1. Private User is a lessee, tenant or user of space or facilities (other than as a member of the general public).
 2. Private User will manage the space or facility, or use or operations of the space or facility.
 3. Private Users is entitled to a portion of the output or services of operations of the space or facility, and the general public is not entitled to a portion of the output or services on the same basis.
 4. The facility in question is so situated that it is useful only or predominantly to one or a few private users or to their customers, clients or business visitors.
 - ii. Private Payments Private payments occur when a private user of a facility pays, directly or indirectly, for use of the space or facility through:
 1. Rent payments
 2. Shares of receipts from the use of such facility
 3. Donations of money or other items or services in exchange for the use
 4. Other tangible benefits to or on behalf of the Institution.
- u. Private Use Safe Harbors** – A set of specific circumstances and provisions under which activities that would otherwise constitute Private Use can be excluded from the Private Use analysis. Private Use Safe Harbors have very specific requirements that must be met in order to qualify for safe harbor status. Private Use Safe Harbors may

- be available with respect to management or service contracts, and with regard to cooperative research agreements, material transfer agreements and federally funded research agreements.
- v. **Rating Agency** – Any nationally recognized securities rating agency, specifically including Moody’s Investor Services, Standard & Poor’s, and Fitch.
 - w. **Repair & Replacement (R&R) Reserve** – A reserve established and funded for the purpose of making major repair, rehabilitation, replacement, improvement, renovation, remodeling and other similar expenditures of a capital (non-routine) nature. Such reserves are located on the University general ledger in the “92 account series”. The pattern of funding and spending of R&R reserves that are controlled by Revenue Systems can have a direct and significant impact on the Debt Service Coverage ratio compliance at both the Revenue Systems, campus, and University levels.
 - x. **Reserves Available for Debt Service** – Unrestricted cash reserve funds of a Unit, Campus Revenue System or Revenue System that are segregated from the operating cash and R&R cash reserve funds and which are internally designated through the use of distinct general ledger account or sub-account identification as an unrestricted reserve that is available to cover debt service requirements. These funds are unrestricted in nature, and can be accumulated and included in Unit, Campus Revenue System or Revenue System calculations of the debt service coverage ratio, in amounts not to exceed 25% of the Annual Debt Service Requirement.
 - y. **Revenue System** – A system of facilities and related operational activity which produce Net Income of a character recognized under the Indiana Code as available pay debt service on bonds issued for facilities including (i) student housing facilities, (ii) parking facilities, (iii) research facilities, on the IU Bloomington or IUPUI campuses, (iv) food service facilities, (v) student health and health care facilities, (vi) the University Place Hotel, (vii) the New Athletic Facilities at IU Bloomington, and (viii) certain other revenue producing facilities as allowed by law and/or so designated by the General Assembly.
 - z. **Tax-Exempt Bonds** – Bonds, the interest on which is intended to be excludable from gross income for federal income tax purposes under Section 103 of the Code.
 - aa. **Treasurer** – Refers to the Treasurer of University, and all of the staff and divisional Units that are contained within the Office of the Treasurer. The Treasurer of the University is also vested with powers as Treasurer of the Board of Trustees of Indiana University.

bb. Unit – An academic, administrative, auxiliary, service, or other School or Department which operates in facilities of which some or all are financed with debt issued by the University, e.g. the Department of Intercollegiate Athletics, the School of Medicine.

cc. Variable Rate Bond – A bond, the interest rate on which changes or can change from time to time prior to final maturity of such Bond.