About This Policy

Effective Dates:
01-01-2006

Last Updated:
05-26-2023

Responsible University Administrator:
Executive Vice President for Finance and Administration

Policy Contact:
Don Lukes
University Treasurer
dlukes@iu.edu

Gail Bourkland
Managing Director, Capital Finance
gbourkl@iu.edu

Scope

All University departments and operating units.

Policy Statement

I. Authority for Financing Programs and Instruments
   All debt issued by Indiana University (“University” or “IU”) will be issued pursuant to duly authorized resolutions of the Board of Trustees of Indiana University (“Trustees”) and will conform to levels of approval and authorization as provided for in enabling statutes in Indiana and federal law. The University issues tax exempt debt under Section 103 of the Internal Revenue Code (the Code), as a 501(c)3 issuer, or obligations based on an exemption under Section 3(a)(4) of the Securities Act. The University, at its discretion, may also choose to issue public debt that is taxable. The authority to issue debt is provided in the following provisions of the Indiana Code (“IC”):
   A. Student Fee Bonds: – IC 21-34-6
   B. Revenue Bonds: IC 21-35-3 as supplemented by IC 21-35-5
   C. Temporary Borrowing: IC 21-32-2
   D. Lease-Purchase Obligations (also includes Certificates of Participation): IC 21-33-3-5
   E. Qualified Energy Savings Debt: IC 21-34-10-7
   F. Derivative and Swap Transactions: IC 21-29-3-1

II. Capital Lending Program
   Use of IU’s internal cash liquidity for purposes of financing capital projects may be authorized by the University Treasurer (“Treasurer”) for strategic purposes, including projects for which statutory authorization for external borrowing is not available, subject to all appropriate and necessary internal and external approvals. The financing of internally financed capital projects is subject to FIN-TRE-130 Internal Loan Policy for Capital Construction and Renovation Projects - Capital Lending Program.

III. Strategic Considerations
   A. Institutional Debt Capacity
      Institutional debt capacity is a valuable resource that will be actively managed in support of the institutional mission. Financial ratios as determined by major credit rating agencies that are strongly correlated with
highly rated institutions of higher education will be monitored by the Office of the Treasurer to ensure oversight of debt levels and total leverage.

B. Interest Rate Exposure and Variable Rate Allocation
Variable rate debt can provide for relatively lower costs of capital than fixed rate debt; however, variable rate debt also introduces additional risk and potential volatility with the debt portfolio. IU will seek to manage the debt portfolio over time in a manner so no more than 20% of the total university debt portfolio is in variable rate debt instruments at any time. Variable rate may be achieved either directly through debt issuance or indirectly by entering into interest rate swap agreements.

C. Maturity and Amortization Term Exposure
The amortization and maturity of debt shall be established based on (1) statutory or governmental restrictions, (2) types of assets to be financed, (3) projected availability of cash flows to meet debt service requirements, and/or (4) tax regulations. No debt repayment period shall exceed the expected useful life of the asset being financed and, in some instances, may be limited to 120% of the IRS regulation-established useful life guidelines. Debt service that is subject to fee replacement shall not have a repayment period that exceeds 20 years, unless approved by the State Budget Committee and State Budget Director (i.e., 20 annual principal payments, exclusive of periods where construction period interest is capitalized or paid). For capital projects financed under consolidated revenue bonds or lease purchase obligations, the final maturity of the debt should not exceed the estimated useful life of the assets being financed.

D. Credit Enhancement and Insurance
Credit enhancement products, such as bank facilities and insurance, may be utilized to achieve interest cost savings or provide increased risk mitigation to liquidity and cash flows. Market conditions may be such that it may be fiscally prudent to issue debt without credit enhancement, even if some net present value savings would result from credit enhancement.

E. Refunding Bonds
Refunding bonds may be issued to (1) comply with 21-34-6-6(b), (2) achieve debt service savings on outstanding fixed rate bonds, (3) restructure the debt portfolio, and/or (4) modify bond covenants contained in bond documents. The Treasurer will actively consider the refunding of outstanding debt issues when net present value savings from the refunding meet or exceed the minimum savings guidelines that are established by the Indiana Finance Authority. Refundings may also be considered to eliminate restrictive bond covenants or for portfolio restructuring purposes. However, given that tax regulations limit the number of allowable refundings for bonds, the Treasurer will evaluate a number of factors with respect to any proposed refunding transaction including the value of any call options to be exercised, the amount of time to the call date, and the amount of time from call date to maturity.

F. Tax Exempt or Taxable Financing
IU has traditionally issued tax-exempt debt because it typically results in lower interest costs than taxable debt, depending on market conditions. However, in certain circumstances, the intended use of the debt-financed facilities may preclude the use of tax-exempt debt because of restrictions imposed by the tax regulations.
Additionally, taxable debt may provide enhanced financing flexibility and risk mitigation. In such instances, IU may issue taxable debt, but any use of taxable debt will require the same process of authorizations and approvals that tax-exempt debt would require.

G. Method of Sale
From time to time, IU will utilize a request for proposal ("RFP") process to engage qualified investment banking firms, law firms, and financial consultants, as needed, to assist in financing transactions. Selection of the most appropriate investment banking firms to serve in the roles of senior manager, co-senior manager, and/or co-manager within the underwriting group will be made by the Treasurer. IU will generally sell bonds through a negotiated sale with the senior underwriter for a specific series of bonds. IU staff will assess the market to provide assurance that the interest rates, bond purchase prices, and other terms proposed by the senior underwriter are fair and reasonable under current market conditions. Notwithstanding any of the above, IU may elect to sell any particular bond issue through a competitive
bidding process rather than a negotiated sale, if circumstances are such that a competitive sale would produce a more optimal result for IU based on market conditions.

H. Use of Gifts, Grants, Reserves and Other Forms of Equity
The Treasurer will work with the applicable campus and/or unit to determine the optimum ordering and timing of the application of bond proceeds, gifts, grants, reserves, and other forms of equity toward construction of the project. A project may proceed to construction (i.e., contracts can be signed) only after confirmation by the Treasurer that 100% of the cash flow required to pay for the construction costs and any construction period interest has been identified. Sources of such cash flow may include bond proceeds, cash reserves, legally enforceable gift or grant agreements maturing in five years or less, approved internal financing, and other acceptable guarantees. Bequests or other deferred gift instruments, for which the receipt of gift funds by the University are predicated on the occurrence of future events for which the dates of occurrence are uncertain or subject to change, may be counted toward the project financing cash flow requirements only upon approval of the Treasurer and/or the Executive Vice President for Finance and Administration.

I. Use of Derivatives and Swap Agreements
The use of derivatives and interest rate swaps may be employed as an interest rate risk management tool. A framework will be used to evaluate potential derivative instruments by evaluating the variable rate allocation, the market and interest rate conditions, and the market incentive for undertaking counterparty exposure. IU may engage municipal or financial advisors to assist in evaluating either specific derivative proposals or to provide on-going expertise with respect to the use of derivatives. Under no circumstances will a derivative transaction be entered into that is not fully understood by the Treasurer or that imposes inappropriate levels of risks.

J. Debt Compliance and Reporting
IU will meet ongoing disclosure requirements in accordance with Securities & Exchange Commission ("SEC") Rule 15c2-12. IU will submit all reporting required with respect to outstanding bonds, notes, lease purchase obligations, or certificates of participation to which such rule applies or obtain a dissemination agent to do so on its behalf. In so doing, IU will provide updated financial information, operating data, and timely notice of specific reportable events through the Municipal Securities Rulemaking Board ("MSRB") Electronic Municipal Market Access system ("EMMA"). IU will also provide, on a timely basis, any additional information, as may be required by bond indentures or other documents to the appropriate trustee or other parties.

Reason For Policy

I. Purpose
This policy governs the issuance and use of debt for the purpose of financing capital projects of the University. Capital and operating leases are also considered forms of indebtedness under the Indiana Code and impact the overall creditworthiness 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 and are not taken into account by the Capital Financing policy or the Institutional Capital Financing Credit Guidelines referenced under the Procedures section. Prudent management of debt can help IU achieve its institutional mission and strategic objectives through efficient and low-cost access to the capital markets. Additionally, debt management policy and best practices uphold IU striking an appropriate balance between high credit quality, financial flexibility, and mitigation of risk, through the application of sound and professional financial analysis, collaborative and thorough planning, diligent compliance efforts, and the regular review and assessment of results. The purpose of this policy, the Institutional Capital Financing Credit Guidelines, and any associated practical and procedural guidance, is to provide a framework for prudent management of the debt portfolio as a valuable resource of the University. This policy is intended to be no less restrictive than the State of Indiana Debt Management Plan & Related Policies ("Plan") by the Indiana Finance Authority ("IFA") on May 16, 2019 or as modified from time to time. To the extent that this policy differs from subsequent changes to those policies, the IFA Plan may apply based on IFA review of IU’s plan of finance prior to each issuance.
II. Policy Objectives

The objectives of the Capital Financing Policy include the following:

• Support the institutional mission by providing for capital financing needs of the University through efficient and low-cost access to the public debt markets
• Promote the integration of long-term financial planning with long-term capital planning
• Limit debt portfolio risk to appropriate levels as determined by executive management and the Trustees
• Promote sound financial practices, proactive resource management, and thoughtful institutional financial planning.

Procedure

Capital Financing Procedures included in the Institutional Capital Financing Credit Guidelines are incorporated into this policy by this reference.

Definitions

Definitions included in the Institutional Capital Financing Credit Guidelines are incorporated into this policy by this reference.

History

This policy was established on January 1, 2006 and updated August 6, 2021.

A substantive review of the policy was conducted by the Office of the Treasurer and minor non-substantive revisions were made in May 2023.

Previous version

Related Information

FIN-TRE-130, Internal Loan Policy for Capital Construction and RenovationProjects - Capital Lending Program
Investor Disclosure Website
Institutional Capital Financing Credit Guidelines