University of Connecticut Office of Treasury Services
<u>Debt Management Policy</u>

Overview:

The Office of Treasury Services ("OTS") serves as UConn's Treasury for bond funds and as UConn's public finance department. OTS professionally and prudently issues, invests and disburses UCONN 2000 bond funds, and also acts as the compliance department for UCONN 2000 and other tax-exempt debt pursuant to the financing documents, indentures state law, and the rules and regulations of the Internal Revenue Service, the Securities and Exchange Commission, the Municipal Securities Rulemaking Board, State Law, and other entities. OTS has a staff of 2 people reporting to the Office of the Executive Vice President for Administration and Chief Financial Officer. OTS' clients include the University, the State Government, Connecticut taxpayers and UConn's students, faculty and staff. OTS strives to promote public confidence in the University's Treasury Operations and the UCONN 2000 bonds through effective management of resources, high standards of professionalism and integrity, and skillfully acting on opportunity for the University's debt, cash, compliance and other programs in the public and private markets. The State Debt Service Commitment secures part of the university's bonds up to $4.3 billion (cumulative to 2024), phased in by fiscal year. UCONN 2000 debt is "construction" type debt used primarily for capital expenditures on buildings, infrastructure and equipment. Additionally the university may issue in conjunction with the Office of State Treasurer Special Obligation Student Fee Revenue ("SO-SFR") and other UCONN 2000 debt pursuant to the conditions, requirements, and limits the projects listed in Conn. Gen. Stat 10a-109 and amounts limited by the university's Board of Trustees and subject to the Governor's approval as well as certain requirements of the Office of State Treasurer.

The Debt Management Policy goal is to permit the University to operate and maintain itself as an institution dedicated to excellence in higher education to operate and maintain the physical plant in sound operating condition and to maintain its investments in these revenue producing assets and for contributing to the economy of the State of Connecticut.

Status:

Debt management policies are pending approval by the issuers governing body, they are intended to provide credibility, transparency and to ensure that there is a common understanding among the University's staff regarding the approach to debt financing. They also help the University meet various ongoing regulatory requirements.

Purpose:

This debt management policies comprises written guidelines, allowances, and restrictions that guide the debt issuance practices and related investments of the University of Connecticut, including the issuance process, management of a debt portfolio, and adherence to various laws and regulations. The intention of this debt management policy is to improve the quality of decisions, articulate policy goals, provide guidelines for the structure of debt issuance, and demonstrate a commitment to long-term capital and financial planning. These management policies are written for UConn's specific needs and available financing options and these are corresponding operating procedures.

Benefits:

The benefits of debt management policy signals to rating agencies and the capital markets that a government is well managed and therefore is likely to meet its debt obligations in a timely manner.

Recommendation:

These policies reflect University, state, and federal laws and regulations and indenture requirements. To assist with the development of these policies the Debt Management Policy is reviewed periodically and updated as required.

Debt Limits:

UCONN 2000 Debt Management Policy sets specific limits or acceptable ranges for each type of debt considering legal, public policy, and financial reasons.

A. Legal restrictions and types of debt as determined by C.G.S 10a-109a to 10a-109y are listed below:

- **Connecticut General Statute:** The University of Connecticut is statutorily enabled to issue debt for UCONN2000 Projects pursuant to the UCONN 2000 Act (Sections 10a-109a to 10a-109y, inclusive, of the Connecticut General Statutes, as amended). Public policy limits the use of the funds to UCONN 2000 projects and UConn's financial resources determine the amount of non-GO-DSC debt which can be issued.

1. **General Obligation Bonds Secured by the State's Debt Service Commitment ("GO-DSC"):** The UCONN 2000 Act provides that the University may issue up to $4,282,400,000.00 of debt service commitment debt that the state pays for the debt service.
   - GO-DSC Indenture: General Obligation Debt Service Commitment Bonds ("GO-DSC") are issued pursuant to the General Obligation Master Indenture of Trust, dated as of November 1, 1995, between the University of Connecticut, as Issuer, and Fleet National Bank of Connecticut as Trustee (now U.S. Bank N.A.). The University's Board of Trustees on November 10, 1995, and the State Bond Commission on December 21, 1995 approved the Master Indenture of Trust. The Master Indenture was subsequently amended and approved by the University's Board of Trustees on September 26, 2003 and the State Bond Commission on December 19, 2003. The Board of Trustees and the Governor approve the subsequent Supplemental Indentures for each bond issue. The University and the Office of the State Treasurer, working in conjunction, manage the Debt Service Commitment Bond sale process.
2. **Special Obligation Student Fee Revenue Bonds Secured by Pledged Revenues:** The UCONN 2000 Act also authorizes the University to issue Special Obligation Revenue Bonds. Unlike the UCONN 2000 General Obligation Debt Service Commitment Bonds ("GO-DSC") that are paid from the State's General Fund, debt on the Special Obligation Bonds ("SO") are paid from certain pledged revenues of the University as defined in the particular bond series indenture. Unlike the GO-DSC the limit on this debt's flexible and considers the indenture pledged revenues coverage ratio at 1.25x, governor authorizations, self-sufficiency refunding savings and other functions.

- **SO-SFR Indenture:** Special Obligation Student Fee Revenue Bonds ("SO-SFR") are issued pursuant to the Special Obligation Supplemental Indenture of Trust, dated as of January 1, 1997, between the University as Issuer and U.S. Bank N.A. as successor to State Street Bank & Trust as Trustee ("the Special Obligation Master Indenture"). The Board of Trustees approved the Master Indenture on November 8, 1996. The University's Board of Trustees and the Governor approve the subsequent Supplemental Indentures for each Special Obligation bond issue. The University of Connecticut, as issuer and State Street Bank and Trust Company, as trustee Special Obligation Indenture of Trust Student Fee Revenue Bonds dated as of January 1, 1997.

3. <u>Other UCONN 2000 Debt</u>

- **Heating Plant Upgrade Cogeneration Facility Tax-Exempt Governmental Lease Purchase Agreement was subject to financing documents as permitted in the UCONN 2000 Act:** which authorizes the University to issue other debt for UCONN 2000 projects in conjunction with the Office of the State Treasurer and subject to credit rating agency, the governing body authorization, and state and federal regulation requirements with the consideration of the existing UConn debt financing documents including existing covenants and debt. Unlike GO-DSC debt, there is no absolute upper limit restrictions on such debt. The Board of Trustees authorized $81,900,000 of UCONN 2000 debt in the form of a Tax-Exempt Governmental Lease Purchase Agreement secured by the University's general obligation for the Cogeneration facility portion of the UConn 2000 Heating Plant Upgrade project entered into under separate financing documents.

  This $81,900,000 of UConn 2000 debt was not issued under the UConn 2000 General Obligation or Special Obligation Indentures of Trust, but was entered into under certain separately negotiated documents and agreements in two parts. On December 18, 2003, the University entered into a privately placed $75,000,000 Tax-Exempt Governmental Lease Purchase Agreement at a nominal interest rate of 4.42% compounded monthly for a term of 240 months to finance the design and construction of a combined heat and power plant. On August 15, 2005, the University amended the Lease for an additional amount of $6,900,000 at a 5.09% interest rate compounded monthly. In August 2013, the University amended the Leases to lower the interest rate to 3.22% for the full outstanding amount of the Lease, as amended, effective as of the August 2013 monthly payment which lowered the University's monthly payments from $517,135 to $482,448. In November 2016, the University amended the Leases to lower the interest rate to 2.22% for the full outstanding amount of the Lease, as amended, effective as of the January 2017 monthly payment which lowered the University's monthly payment from $482,448 to $461,645.

  The Heating Plant Upgrade project is a named project under UConn 2000. The cogeneration facility is a linchpin of the University's commitment to energy efficiency and generates much of the needs for electrical power, heating and cooling on the Storrs campus. Cost avoidance achieved through the construction and operation of the facility is expected to provide funds to pay the debt service. An earlier phase of the Heating Plant Upgrade project was funded with UConn 2000 General Obligation DSC bonds as listed above. Payments of both tranches are combined in one monthly payment. The Tax-Exempt Governmental Lease Purchase Agreement is not rated by the credit rating agencies but, as UConn 2000 debt, it is weighted in their credit rating analysis of the UConn 2000 General Obligation and Special Obligation programs.

- **UConn 2000 Residential Life Facilities – Nathan Hale Inn Promissory Taxable Note**:

  On April 29, 2015, the Board of Trustees authorized the University to assume existing indebtedness of the seller of the Nathan Hale Inn on the Storrs Campus (the "Inn") in the form of a promissory note (the "Note") to Webster Bank in the maximum principal amount of $5,500,000. The Governor approved the financing on May 19, 2015. On July 1, 2015, the University entered into with Webster Bank a privately placed $5,376,712.73 6.84% UConn 2000 Residential Life Facilities (Nathan Hale Inn) Promissory Note (Taxable) secured by the general obligation of the University with an approximate 18 month maturity (August 1, 2015 to until December 1, 2016). The note's debt service payments were $44,989.20 monthly with a balloon payment due on 12-1-2016. The note was not issued pursuant to the UConn 2000 General Obligation or Special Obligation Indentures of Trust but was issued subject to separate financing documents as permitted in the UCONN 2000 Act. The Note matured and was retired on December 1, 2016.

B. Public Policies Internal Standards and Considerations Including:

- **Public Policy Purpose**: The UCONN 2000 Act is to promote the welfare and prosperity of the people of the State and the continuation and improvement of their educational opportunities by approving a special capital improvement program for the University and enabling the University to borrow money by issuing Bonds and enter into financing transactions in its own name, on behalf of the State, to expand the authority of the University to construct Projects and to assure State support for the financing of the acquisition, construction, reconstruction, improvement and equipping of facilities, structures and related systems for the benefit of the educational and economic development needs of the State and the University, all to the public benefit and good, and the exercise of the powers, to the extent and in the manner provided in the Act, which the Act declared to be for a public purpose and to be the exercise of an essential governmental function.
- **Empowerment**: The University is empowered by the Act pursuant to a resolution adopted by a majority of its Board of Trustees to borrow money and issue securities to finance the acquisition, construction, reconstruction, improvement or equipping of any one project, or more than one, or any combination of projects, or to refund securities issued after the effective date of the Act, or to refund any such refunding Securities for any one, or more than one, or all of those purposes, or any combination of those purposes, and to provide for the security and payment of those securities.
- **Policy goals**: UCONN 2000 debt is to permit the University to operate and maintain itself as an institution dedicated to excellence in higher education to operate and maintain the physical plant in sound operating condition and to maintain its investments in these revenue producing assets and for contributing to the economy of the State of Connecticut.

- **Public Private Partnerships:** In order to foster research and advancement to enhance the economy of the state the University may engage in public private partnerships as appropriate subject to proper approvals.

C. **Financial Restrictions or Planning:** Consideration for debt issues generally reflect University and State public policy and other financial resources constraints, such as reduced use of a particular type of debt due to changing financial conditions; appropriate debt limits impact on bond ratings, etc. Financial limits often are expressed as ratios customarily used by the credit rating agencies and impact the University's credit ratings. Different financial limits are used for different types of debt.

- **Other Debt Funding:** The Foundation and UConn Financing Corp. from time to time have issued debt for buildings to be located on UConn's Campuses.
- **Short-Term Debt Issuance** is possible for the University, however it has not been efficient or necessary to use to date, and nothing is authorized to date.
- **Variable Rate Debt** possible, however not efficient to date based on all-inclusive costs, term of the projects, market conditions, debt portfolio structuring purposes, credit rating and other considerations. There are no authorizations at this time.

D. **Debt Structuring Practices:** The Policy follows guidelines regarding the debt structuring practices for each type of bond, including:

- Maximum term and debt service structure Average maturity, GO-DSC 20 year level principal; Other debt varies however usually level debt service; SO-SFR debt usually is configured for up to 30 years level debt service.
- Use of optional redemption features that reflect market conditions and/or needs of the government is determined at time of issuance upon with consultations with Financial Advisors & State Treasurer.
- Considerations for taxable, tax-exempt, use of variable or fixed-rate debt, credit enhancements, derivatives, short-term debt, and limitations are determined at the time of issuance as to when, and to what extent, each can be used and other factors.
  - Current status of fixed rate debt issued to date and very efficient historical rates,
  - No swaps or variable rate debt used to date,
  - While legal ability to do so there are no authorizations to issue variable rate and/or swaps at this time.
- From time to time UConn management practices capitalizing interest for SO-SFR debt during the construction of the project and deferral of principal, and/or other internal credit support, including general obligation pledges.
- Other structuring practices maybe used as appropriate.

E. **Debt Issuance Practices:** The Policy provides guidance regarding the issuance process, which may differ for each type of debt. These practices include:

- UConn selects and uses of professional service providers in conjunction with the Office of the State Treasurer, including independent financial advisors, bond counsels, verification agents, and others to assist with determining the method of sale and the selection of other financing team members pursuant to the State Treasurer Request for Proposal process.

- Criteria for determining the sale method (competitive, negotiated, private placement) and investment of proceeds made in consultation with State Treasurer, financial advisors and bound counsel for each financing.
- Uses of comparative bond pricing as advised by financial advisors and market information often use comparable financing or market indices as a benchmark in negotiated transactions, as well as to evaluate final bond pricing results.
- UConn's criteria for issuance of advance refunding and current refunding bonds is flexible depending on needs, and consideration such as current and projected interest rates and the market environment and we generally follow State Treasurer criteria and rule of thumbs for refunding candidates and for GO-DSC debt.
- Use of credit ratings, minimum bond ratings, determination of the number of ratings, and selection of rating services are made in consultation with the State Treasurer and financial advisors.
- Work in conjunction with State Treasurer's Office with advice of Bond Counsel.

F. **<u>Debt Management Practices:</u>** The Treasury Services policy guidance provides ongoing administrative activities including:

- Investment of bond proceeds – Construction funds invested in Short Term Investment Funds.
- Primary and secondary market disclosure practices, including annual due diligence meeting as required, - Treasury Services EMMA filings made with bond counsel advice.
- Arbitrage rebate monitoring and filing – Treasury Services does for all non-GO-DSC debt.
- Federal and state law compliance practices, with advice of bond counsel ongoing market and investor relations efforts. Office of Treasury Services works with State Treasurer & UConn Public Relationships Offices and Underwriters.
- Other debt including leases allows subject to Conn. Gen. Statute 3-20d.

G. **<u>Use of Derivatives:</u>** Legislation allows UConn debt management policies to use derivatives. However, UConn's policy is not to do so unless it proves cost effective, which it has not done so far.