BOARD OF GOVERNORS
POLICY REGARDING AUTHORIZATION AND APPROVAL OF UNIVERSITY DEBT

This policy is intended to provide a framework for the review and approval required for universities to incur debt or encumber resources on a long-term basis. It is critically important to the prudent financial management of the University System that the Board of Governors provide a policy regarding the process by which universities incur debt.

All debt to be issued by universities and their direct support organizations (“DSOs”) shall be subject to review and approval by the Board of Governors (“BoG”). This policy shall apply to all forms of debt including, but not limited to, bonds, certificates of participation, leases securing debt, lease-purchase agreements, loans, promissory notes, installment sales or any other financing mechanism whether or not such arrangements are legally considered debt.

Debt may only be incurred for capital outlay, including equipment and software, if allowed by law. The facilities and equipment to be constructed or acquired with the proceeds of debt shall be subject to review and approval by the BoG. The BoG review shall be initiated upon the request of the university or its DSO pursuant to a resolution adopted by the University Board of Trustees requesting consideration of the proposed project and financing thereof. The university or DSO shall provide information regarding the proposed project and financing as the BoG may prescribe or request. University and DSO debt shall be secured by only those revenues that are appropriate for capital outlay, legally authorized for such purpose and approved by the BoG. The revenues set forth below are permissible for securing debt and consistent with current law. The revenues authorized to secure debt may be modified from time to time to reflect statutory changes or to establish more detailed criteria for permissible revenues. In addition to the revenues set forth below, the Activity and Service Fee and the Athletic Fee may be used to secure debt, if legally permissible.

- Capital Improvement Fee
- Building Fee
- Health Fee
- Transportation Access Fee
- Hospital Revenues
- Licenses and Royalties
- Gifts and Donations
- Overhead Component of Grants and Contracts
- Assets of University Foundations or earnings thereon
- Auxiliary Enterprise Revenues, e.g., housing, parking, food service, athletic, retail sales, research activities
No other revenue source shall be pledged as security for debt unless specifically approved by the Board, which approval shall, in all cases, be consistent with existing law. Additionally, the following conditions shall apply to debt of universities, their DSOs and the revenues pledged therefor:

- Debt secured by gifts and donations shall not be longer than five years
- Debt secured by licenses and royalties shall be for facilities that are functionally related to research activities
- Debt to finance equipment and software shall not be longer than five years or the useful life of the asset being financed, whichever is shorter.

The BoG may adopt more detailed criteria, policies and procedures to govern the issuance of debt by universities and DSOs. Additionally, the BoG may adopt policies in which certain types of debt and facilities are automatically approved without the BoG’s review.

The foregoing policy shall be effective immediately and may be modified from time to time by the BoG as circumstances warrant. The policy is intended to apply prospectively to all university and DSO debt and not to adversely affect any university or DSO debt currently outstanding.