



# KENTUCKY STATE UNIVERSITY POLICIES AND PROCEDURES

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**POLICY TITLE:**

**Debt Management Policy**

**VOLUME, SECTION & NUMBER:****ENTITIES AFFECTED:**

**All Divisions and Departments**

**ADMINISTRATIVE AUTHORITY:**

**Finance and Administration**

**APPROVED BY:**

**Kentucky State University Board of Regents**

**EFFECTIVE DATE:**

**August 9, 2024**

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**POLICY STATEMENT:**

To fulfill its mission, Kentucky State University (KSU) must make ongoing strategic capital investments in academic, student life, and other plant facilities using an appropriate mix of funding sources—including state bonds and appropriations, philanthropy, and capital leases.

The purpose of the policy is to provide guidance on the strategic use of debt and to ensure the appropriate mix of funding sources are considered and utilized. Debt is a valuable source of capital project financing but should be limited to projects that relate to the mission and strategic objectives of KSU. The amount of debt incurred has an impact on the financial health of KSU and its credit rating.

This policy provides a discipline and framework to be used to evaluate the appropriate use of debt in capital financing plans.

**PROCESS:**

Projects to be considered for debt financing must relate, directly or indirectly, to the mission of KSU.

KSU shall maximize the use of philanthropy, grants, state appropriations and state bonds to fund capital projects, strategically using taxable and tax-exempt debt to provide additional resources to support mission-critical investments. KSU will consider other funding opportunities when appropriate and advantageous to it.

An evaluation of such financing strategies will include a comprehensive assessment of the risks, costs and benefits specific to the project, KSU resources at-large, and the overall debt portfolio.

A Debt Management Committee consisting of the CFO, Director of Capital Planning and Facilities Management, Provost, and General Counsel will meet regularly to review KSU's debt capacity and present recommendations to the President for projects to be funded with debt financing.

The CFO is responsible for all debt management including post issuance compliance monitoring. The President and Board of Regents must approve all debt financing.

#### **Identify and Prioritize Capital Projects Eligible for Debt Financing**

The Director of Capital Planning and Facilities Management is responsible for estimating and defining capital project costs and maintaining a list of potential projects under consideration. The CFO is responsible for developing university-wide capital planning documents for the current year, current biennium, and the six-year capital plan.

Projects considered for debt financing must consider project expenses and incremental operating costs and revenues. The net present value of each project will be calculated by summing the discounted value of the annual net project cash flows over the life of the project.

#### **Evaluate Debt Capacity**

The CFO shall regularly monitor the debt capacity and maintain a schedule of current and forecasted debt and associated payment of principal, interest, and fees. The CFO is responsible for the administration of all aspects of debt financing, including accounting, reporting, and coordination with financial advisors, underwriters, bond counsel and rating agencies to issue new debt or refinance existing debt.

KSU will assess its ability to absorb additional fixed capital costs while maintaining overall financial health, considering its ability to repay debt from operating revenues while still fulfilling its mission. To support the evaluation of the debt capacity, KSU will utilize the Moody's investors service higher education scorecard based on the most recent fiscal year-end audited financial statements.

#### **Guidelines for Managing Debt Portfolio**

KSU will continuously monitor its outstanding debt portfolio for refunding and/or restructuring opportunities. In analyzing possible refunding candidates, KSU will consider the net present value savings as a percentage of refunded debt, as well as the potential cash flow savings from the refunding. A refunding may also be considered if it relieves KSU of certain limitations, covenants, payment obligations, or reserve requirements.

To maintain an acceptable credit rating, KSU will maintain ongoing communication and interaction with the rating agencies to inform the agencies about the general credit structure and financial performance of KSU.

KSU will monitor its debt portfolio to remain within compliance of federal and state law and maintain its tax-exempt status. All required continuing disclosures shall be timely filed.

### **RELATED POLICIES:**

Business Policies and Procedures Manual

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