# JACKSON STATE UNIVERSITY
JACKSON, MS

DIVISION OF BUSINESS & FINANCE
# OFFICE OF THE TREASURER

# POLICY & PROCEDURES MANUAL

**Revised**
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# INTRODUCTION

## OVERVIEW

Jackson State University (the "University") maintains a centralized management approach for all of its banking and treasury services. The Treasurer's Office is responsible for the optimization of cash flow and security of all funds collected, managed, and disbursed by the University. These responsibilities will be met through the employment of technology, timely and efficient banking practices, and commitment to risk-averse management of funds.

## MISSION OF THE OFFICE OF THE TREASURER

The mission of the Office of the Treasurer at Jackson State University is to protect and enhance the financial resources of the University through effective cash management, prudent borrowing, and conservative investing of cash reserves. These responsibilities are conducted in an ethical and efficient manner, guided by the strategic plans of the University and the best interests of its students, faculty, and staff.

## PURPOSE OF MANUAL

The general purpose of this manual is to set forth the business policies and procedures of the Office of the Treasurer at Jackson State University. It is intended to provide the following benefits:

1. TO IMPROVE COMMUNICATION
   The manual is written to improve communication and bridge the gap between interrelated departments. This will help ensure efficient operations and consistent delivery of quality information.
2. TO REDUCE TRAINING TIME
   The policies and procedures manual is a functional guide for training new and existing employees and should prevent difficulties in performing duties due to lack of understanding or inconsistent approaches from personnel changes.
3. TO IMPROVE PRODUCTIVITY
   Written policies and procedures can speed up decision-making processes by managers and employees by having an authoritative source for answering questions. The manual will also ensure compliance with regulatory agencies affecting the University, such as the Mississippi State Statutes, Institution of Higher Learning, Generally Accepted Accounting Principles, various government contracting authorities, and independent certification organizations.
4. TO STRENGTHEN OPERATIONS
   This manual will strengthen the University's quality control, management, production, and systems for financial control.

## DELEGATION OF AUTHORITY

As authorized by the University President, the administration of the University's financial and business affairs is the responsibility of the Senior Vice President for Finance and Operations. By approval of this document, the Senior Vice President has delegated the planning and management responsibility for the University's financial resources to the Associate Treasurer. The University Treasurer, therefore, has the authority and responsibility for treasury and financial functions in the areas of banking, cash management, debt management, investment management, financial relationships management, and other general treasury functions. These responsibilities will be executed under the guidelines of the policies set forth in this manual.

## FUNCTIONS OF THE OFFICE OF THE TREASURER

**Banking**
Only the Treasurer has overall responsibility for the administration and oversight of all banking and treasury services for the University. No other individual, department, school or college has the authority to establish an active bank account using the University's name or tax identification number.

**Cash Management**
**C**ash management is an integral component of the University's financial activities. It is the responsibility of the Treasurer's Office to monitor and facilitate the flow of funds through all the University's depository and disbursement accounts.

**Investment Management**
The Treasurer is charged with implementing an investment strategy in which preservation of capital is regarded as the highest priority. This office is also responsible for overseeing the day-to-day management and administration of the University's investment portfolio.

**Debt Management**
The University borrows money through the issuance of tax-exempt bonds to finance construction cash flows or the acquisition of capital assets related to projects for which the University does not have specific cash reserves on hand. The Office of the Treasurer is responsible for coordinating the debt funding of these University projects.

**Financial Relationships Management**
The Office of the Treasurer is responsible for the efficient operations of the University's banking and financial institution relationships. This includes handling key relationship issues such as pricing, bundling of services, availability of credit and non-credit services, and developing a 'partnership' approach.

## POLICIES

### BANKING AND TREASURY SERVICES POLICY

**Purpose**
To outline authority and responsibility as it pertains to the establishment and maintenance of the University's financial accounts.

**General Guidelines**

- A financial institution account is defined as any account (checking, savings, depository, money market, etc.) opened at a financial institution that uses the name of Jackson State University or any derivation thereof, uses the Jackson State University tax identification number, or receives the deposit of or disburses University funds.

- All activities related to the opening, closing, and maintenance (including selection of account features) of all depository and disbursement accounts carrying the University's name and/or tax identification number shall be the sole responsibility of the Treasurer's Office.

- University units and their staffs should not deal directly with any financial institution regarding the opening, closing, or maintenance of a bank account, except as authorized in writing by the Treasurer.

- All banking and treasury services in relation to any financial institution account must be approved by the Treasurer's Office. This includes all lockbox and credit card services, leases and license agreements for Automated Teller Machines (ATM) or Cash Dispensing Machines (CDM) on University property.

- Unless otherwise directed by the Treasurer's Office, all statements for any accounts for the University shall be mailed to the Office of Financial Services to allow for prompt account reconciliation. Copies of these statements should be forwarded to the Treasurer for review. Additionally, all account analysis statements (showing charges for services rendered) for any accounts shall be sent to the Treasurer's Office.

- Accounts no longer active or no longer needed should be closed. The closure process requires written authorization to close the account from the Office of the Treasurer and provides information as to the dispensation of any remaining funds left in the account. Additionally, the Treasurer's office will provide information regarding the closing of the account to the appropriate personnel in the Office of Financial Services.

**CASH MANAGEMENT POLICY**

**Purpose**
To establish sound cash management practices to ensure efficient utilization of cash in a manner consistent with the overall strategic goals of the University.
*(In this context, cash would be defined as coins, currency, checks, money orders, credit and debit card payments, and ACH payments.)*

**General Guidelines**

- All activity and balances in the primary accounts shall be monitored by the Treasurer's Office to assess the cash necessary to meet daily obligations and ensure adequate funds are available.

- The Office of the Treasurer is responsible for the movement of funds between bank accounts maintained by the University. This includes, but is not limited to:
    - Initiating all wire transfer of funds for general business purposes of the University. (S*ee also 'Wire Transfer Policy'*.)
    - Establishing the daily cash position of the University.
    - Appropriately funding disbursement accounts for University obligations.
    - Moving depository funds for investment purposes of the University.

- Efficient cash management strategies, techniques, and procedures shall be used to increase the productivity of cash flows while achieving the following objectives:
    - Liquidity – maintaining the ability to pay obligations when they become due.
    - Cash Optimization – establishing systems and procedures that help minimize investment in non-earning cash resources while providing adequate liquidity.
    - Financing – obtaining both short- and long-term borrowed funds in a timely manner at an acceptable cost.
    - Financial Risk Management - monitoring and assisting in the control of the University's exposure to interest rates, foreign exchange, and other financial risks.
    - Coordination **-** ensuring that cash management goals are communicated and integrated with the strategic objectives and policy decisions of other areas of the University that have an impact on cash flows.

**WIRE TRANSFER POLICY**

**Purpose**
To establish guidelines for the movement of funds by wire transfer from University bank accounts.

**General Guidelines**

- All wire transfer activity utilizing the Federal Reserve System's FedWire capabilities shall be the responsibility of the Treasurer's Office.

- A wire transfer of funds will only be utilized in payment of an obligation of the University when the situation requires *immediate good funds* to settle a transaction. If a more inexpensive mechanism can be utilized to effect payment of the obligation (i.e., ACH or paper check), the Treasurer shall reserve the right to effect payment with the more inexpensive mechanism.

- The Treasurer's Office must have a complete Wire Transfer Request Form before initiating a wire. Requests received by 10:00 a.m. will generally be accepted for same day transfers. Original wire instructions must accompany the funds transfer request.

- When a wire transfer is executed, the total cost of the wire transfer shall be borne by the operating/business unit requesting the wire transfer.

- Once a wire transfer request is made and accepted by the Treasurer's Office, the requesting business/operating unit cannot cancel or modify the wire transfer request.

- The following information is required by the Office of the Treasurer to make <u>domestic</u> wire transfers:
    - Bank Name
    - Bank Address
    - ABA/Routing Number
    - Name on the Account (Payee)
    - Address of Payee (not required, but highly recommended)
    - Account Number
    - Amount in USD

- The following information is required by the Office of the Treasurer to make <u>international</u> – U.S. Dollar or Foreign Currency – wire transfers:
    - Bank Name
    - Bank Address
    - SWIFT Code (if available)
    - IBAN (generally for Euro payments)

- Bank, Branch or Sort Code (if applicable)
    - The United Kingdom uses a sort code
    - Germany uses a BLZ code
- Name on the Account (Payee)
- Address of Payee (not required, but highly recommended)
- Account Number
- Amount in Currency Requested (Euro, Yen, Pound, USD, etc.) *(Note: Do not convert currencies, as currency rates fluctuate constantly.)*

**INVESTMENT MANAGEMENT POLICY FOR NON-ENDOWED FUNDS**

**Purpose**

To provide effective, ethical, and consistent guidelines for the investment of Jackson State University's excess funds.
(*In this context, excess funds would be defined as cash balances that arise in the normal course of business operations that are not required at that point in time to maintain adequate bank balances or to repay outstanding financial obligations*.)

**General Guidelines**

- The University shall practice a conservative investment strategy to seek the best yield available consistent with safety, liquidity, board concerns and the Mississippi Code, 1972 Annotated, as amended, to achieve the objectives of:
  - Safety of Principal – this is the prime objective of the investment program. Every effort should be made to minimize risk.
  - Liquidity – adequate liquidity should be maintained to meet projected and unexpected cash needs.
  - Yield of Investments – all reasonable efforts should be made to realize the highest return per investment dollar while minimizing risk and retaining liquidity.

- At a minimum, the yield on investments should be sufficient to preserve and to attain a rate of return equal to the rate established by Higher Education Policy Institute (HEPI) plus 4.5% spending rate.

- Fixed income and money market instruments will be used to provide predictable and dependable income.

- The investment portfolio shall be diversified in order to provide reasonable assurance that a single security's market or company's credit will not have a disproportionate impact on the total portfolio.

- Performance will be compared to the appropriate indices and reported on a quarterly basis. The federal fund rate will be one of the indicators utilized to measure performance.

- Whenever possible, investment securities purchased by Jackson State University will be delivered against payment and held in a custodian or safekeeping account in a State approved depository. This will protect against delivery failures and serve to concentrate investments into one location. Securities shall be delivered from custody or safekeeping only against payment.

- The Treasurer may invest up to $500,000 without prior approval by the Senior Vice President for Finance and Operations.

- The University has delegated authority to the Treasurer to obtain investment and financial advisory services.

**Approved Investments and Restrictions**

- In accordance with Section 27-105-33 of the Mississippi Code 1972 Annotated, the following instruments are authorized for investment:
    - Direct United States Treasury obligations, the principal and interest of which are fully guaranteed by the government of the United States and the maturity date is in accordance with Section 27-105-33 of the Mississippi Code 1972 Annotated.
    - United States Government agency, United States Government Instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government of the United States, such as the Government National Mortgage Association, or which are guaranteed by any United States Government agency, United States Government instrumentality or United Sates Government sponsored enterprise and the maturity date is in accordance with Section 27-105-33 of the Mississippi Code 1972 Annotated. However, obligations enumerated in this subparagraph are not to exceed (50%) of all monies invested under this policy.
    - Direct security repurchase agreements of any federal book entry of the aforementioned US Treasury or Government obligation.
    - Time certificates of deposit or interest bearing accounts with qualified State depositories. At the time of investment, the interest rate on such certificates of deposit shall be a rate not less than the equivalent yield on direct obligations of the United States Treasury with a similar length of maturity. Any interest bearing deposits or certificates of deposit shall not exceed at any time the amount insured by the Federal Deposit Insurance Corporation in any one (1) savings and loan association, or other deposit insurance corporation approved by the State Treasurer equal to 105% of such deposits in accordance with Section 27-105-5 Mississippi code of 1972 as amended.

**Special Provisions**

The University has made a commitment to support minority businesses.  Therefore, the University will invest funds in minority-owned financial institutions in accordance with the “Agreement for Deposit of Funds” when an acceptable yield can be obtained or negotiated.

## INVESTMENT MANAGEMENT POLICY FOR ENDOWED FUNDS

**Purpose**
To provide consistent guidelines for the effective management of Jackson State University's endowed funds.

**Financial Objectives**
The primary long-term financial objective for the University endowment is to preserve the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation, and costs of portfolio management.

**General Guidelines**

- It is required that University endowment funds be invested in a diversity of instruments using a range of investment styles to provide reasonable assurance that no single security, or class of securities, will have a disproportionate impact of the performance of the total fund.

- The goal for Jackson State University's endowment investment pool is to provide a real total return that preserves the purchasing power of the Endowment assets, while generating an income stream to support the academic activities of the University.

- The Endowment's real total return will be sought from an investment strategy that provides an opportunity for superior total returns within acceptable levels of risk and volatility.

**Management of University Endowment Investments**

- Jackson State University (the "Board") has delegated responsibility for Endowed investments to the Investment Committee (the "Committee"), which shall recommend and implement investment policy with regard to asset allocation, manager selection and portfolio supervision.

- Investments will be overseen by the Investment Committee and University staff in accordance with the policies established and the law. Policies currently governing significant areas of investment management are based upon actions of the Institution of Higher Learning and the Investment Committee.

- Investment Committee Functions
    - Develop and recommend to the Board such investment and investment related policies, as it deems appropriate.
    - Recommends to the Board appropriate policies and procedures for custodianship and access to securities held by the funds, as it may deem appropriate.
    - Set asset allocation and manager structure policies for the investments.

- Establish and continue to update the investment policy, and report the recommended changes to the Board.
- Select, and as appropriate terminate, investment managers, fund custodian, and the investment consultant for the investments.
- Establish, monitor, and update the investment process.
- Review investment performance against established objectives.
- Review, at least annually, investment activity to ensure compliance with investment policy.

**Investment Managers**

- Investment managers of marketable securities are expected to produce a cumulative annualized total return net of fees and commissions that exceeds an appropriate benchmark index over moving three to five-year periods, and should be above a median for active investment managers using similar investment philosophies over the same time periods. The primary long-term investment objective will be to earn a total rate of return that exceeds the spending rate plus the costs of managing the investment fund.

- Investment managers have discretion to manage the assets in each portfolio to best achieve the investment objectives, within the policies and requirements set forth in this statement, the investment manager agreement with the Board including the guidelines for each investment manager, and subject to the usual standards of fiduciary prudence.

- Investment mangers will report performance quarterly consistent with these objectives and also indicate current annualized income and yield.

- Each investment manager will be provided copies of the investment policy, along with any updates, changes, and/or corrections established by the Board.

**Endowment Spending**

- The University may spend up to 7% (which includes the payout plus the costs of managing the investment fund) of the principle of the accounts each year starting after the first year of receipt of the completed endowment. The earnings in excess of 7% shall become part of the principal of the endowment. The investment committee may make exceptions to this policy when in the best interest of the University.

**Asset Allocation**

- To achieve its investment objective to the extent provided by law, the University's assets will be allocated among six asset classes. The asset classes are domestic equity, international equity, alternative strategies, real assets, fixed income, and cash. The purpose of allocating assets to these asset classes is to ensure the proper level of diversification.

- The strategic asset allocation adopted by the Investment Committee is:

| **ASSET CLASSES** | Target Allocation | Range |
|---|---|---|
| **Domestic Equity** | | |
| Large Cap | 15.0 | 10.0 - 20.0 |
| Mid/Small Cap | 7.5 | 5.0 - 10.0 |
| **International Equity** | | |
| International Core Equity | 15.0 | 10.0 - 20.0 |
| Emerging Markets | 5.0 | 0.0 - 7.5 |
| **Alternative Strategies** | | |
| Long/Short Hedge | 10.0 | 7.5 - 12.5 |
| Private Capital | 5.0 | 2.5 - 7.5 |
| Absolute Return | 10.0 | 7.5 - 12.5 |
| **Real Assets** | | |
| Public/Private Real Assets | 15.0 | 10.0 - 20.0 |
| **Fixed Income** | | |
| Multi-Strategy | 17.5 | 12.5 - 22.5 |
| **Cash** | 0.0 | 0.0 - 5.0 |
| **TOTAL** | 100.0 | |

*(Note: Amounts are given in percentages.)*

- Asset Allocation Review and Balancing Procedure
    - The Investment Committee will review the strategic allocation in the six asset classes, as well as the allocation to various styles of managers within these asset classes, at least annually.
    - Cash flows into and out of the portfolio (i.e., new gifts and spending) shall be allocated in a manner that will rebalance the portfolio consistent with asset allocation policies. Rebalancing the portfolio by means of liquidating assets managed by investment managers will be the exception, and only done, when recommended by the investment consultant.

## DEBT MANAGEMENT POLICY

**Purpose**
To govern the issuance and management of long-term debt to finance capital projects by Jackson State University.

**Authority**
The University issues debt through the auspices of the Educational Building Corporation (EBC). The EBC is responsible for establishing an overall debt policy and approving the issuance of all external debt, including short and long-term obligations, and guarantees instruments that commit the University to future payments. The Board of the Mississippi Institutions of Higher Learning (IHL) will advise and approve the EBC Board on all debt-related topics. The EBC Board will appoint an Executive Director to manage the overall debt portfolio, according to the University's debt policy. The Executive Director will consult the President of the University, the EBC Board, and IHL on all financial matters associated with procuring, renovating and managing capital assets. The Executive Director will report regularly to the EBC Board on the status of the University's debt portfolio and its plans regarding debt. This review will include an assessment of the University's credit rating and key financial ratios.

**Strategic Planning and Resource Allocation**
The allocation and use of debt financing within the University will include prioritization of debt resources among all uses, including academic and student life projects, plant and equipment, and projects that impact the entire University community.

Projects that relate to the strategic objectives and the core mission of the University will be given priority for debt financing. Nevertheless, projects that have a related revenue stream or can create budgetary savings will also receive priority consideration.

**Issuance Criteria**

- <u>Debt Capacity</u>
  The University's debt capacity will be evaluated and determined by the consideration of the following primary factors:
  1. Legal authorizations and limitations
  2. Current and pro forma financial operating performance
  3. Credit considerations, including the University's credit rating
  4. Targeted Financial Ratios
     a. Unrestricted Resources to Debt ratio of at least 1.3:1
     b. Expendable Resources to Operations ratio to approach 1:1; goal 2:1
     c. Debt Service to Operations ratio should not exceed five percent (5%)
  5. It is the goal of the Board of EBC that the debt burden ratio of Jackson State University will be 5 percent of less. In no case will the debt service be allowed to exceed 7 percent (7%).

- Bond Ratings
  The University seeks to maintain long-term bond rating in the "A" category. Specifically, the pro forma issuance of debt, when supported by the full faith and credit of the University, shall not result in a rating below the A2/A+ level from Moody's Investors Service and Standard & Poor's.

- Access to Capital Markets
  The University will assess the benefit of accessing the capital markets on either a negotiated or competitive basis. The University will utilize the services of capital market providers and professionals who are experienced in unique financing.

**Debt Structure**

- Term of Debt
  The University will determine the appropriate duration and the specific amortization schedule of each bond issue by evaluating its overall debt portfolio. The debt portfolio will be assessed in the context of all its assets and liabilities.

- Refinancing and Restructuring of Debt
  The Board and the Executive Director will periodically review all outstanding debt to determine if refinancing opportunities exist. Refinancing or restructuring of current debt (within federal tax law constraints) may be used to save the University money or to change covenants to provide an advantage to the University's financial or operating position.

  When pursuing refinancing transactions using fixed rate swaps or other derivative products, the University should generate at least two percent (2%) greater projected savings than the savings that would be generated for traditional bonds. The two percent (2%) savings target reflects the greater complexity and higher risk of derivative financial instruments. This threshold will serve as a guideline and will not apply if the transaction, in the University's sole judgment, meets any other objectives outlined herein. Based on historical interest rate indices and other accepted indicators, comparative savings analyses will consider the probability of realizing savings for both the derivative and traditional structures. Comparative analysis also should take into account structural differences between traditional versus derivative alternatives, e.g., the non-callable nature of derivative transactions.

- Use of Tax-Exempt Versus Taxable Debt
  The University will avoid the use of taxable debt when other alternatives are available, including equity financing. At times, however, the University may have to utilize taxable debt, when Federal tax law limits the use of tax-exempt debt for particular projects, especially those where the project includes both private and nonprofit purposes. The University may consider taxable debt as an alternative, where market conditions and debt flexibility make it appropriate. When taxable debt is used, the University will structure it in a manner to shorten its term and redemption date.

- Use of Call Options
  The University will consider the use of call options to reduce its overall cost of capital and to provide maximum flexibility in its debt portfolio. The use of non-callable debt beyond 10 years requires the approval from the Institution of Higher Learning Board of Trustees. When the sale, disposition, or sharing of an asset is financed with tax-exempt debt, it may require the repayment of such debt first. Moreover, in some interest rate environments and because of potential future tax changes, long-term non-callable debt may be disadvantageous to the University.

- Mix of Fixed and Variable Rate Debt, Derivatives and Other Hedging Products
  To provide an appropriate and prudent balance between interest rate risk and the cost of capital, as well as to integrate asset-liability management, the University may structure its overall debt portfolio with a combination of fixed and variable rate debt. The total notional amount of interest rate exchange or similar agreements shall not exceed an amount equal to forty percent (40%) of the total amount of the institution's debt outstanding as of the initial date of entering into each new agreement. However, if deemed necessary, the EBC Board has the authority to increase the level of exposure on variable rate debt.

- Permitted Derivative Instruments
  The following instruments may be utilized on either a current or forward basis with the objective of lowering the University's cost of borrowing and/or interest rate risk:
    - Interest rate swaps – including fixed/floating and basis swaps
    - Interest rate caps, floors and collars
    - Options associated with interest rate swaps (swaptions), caps, floors, collars
    - Put bonds

**Interest Rate Swap Guidelines**

- Interest Rate Swaps
  Interest rate swaps and options are appropriate interest rate management tools that can help the University meet important financial objectives. Properly used, these instruments can increase the University's financial flexibility, provide opportunities for interest rate savings or enhanced investment yields, and help the University manage its balance sheet through better matching of assets and liabilities. The University should integrate swaps into its overall debt and investment management guidelines and should not use swaps for speculation or leverage.

- Procedure for Submission and Execution
    - The University may consider interest rate swaps and options presented either as proposals or developed by the University in conjunction with consultants, advisors and legal counsel.
    - Legal costs that may incur in the development of proposals will be paid by the firm submitting the proposal.

- The University will give detailed consideration only to proposals that meet one or more of the objectives outlined herein.

➢ <u>Procurement and Execution</u>

- The University will not have a fixed guideline with respect to swap procurement and execution. The University will assess the benefits of competitively bidding financial products that are non-proprietary or generally available in the marketplace. On a product-by-product basis, the University will have the authority to negotiate the procurement of financial instruments that have customized or specific attributes designed on the University's behalf.
- The University may also consider the use of financial derivative products if they meet one of the benefits outlined herein or if they:
    1. Provide a specific benefit not otherwise available.
    2. Produce greater expected interest rate savings or incremental yield than cash market alternatives.
    3. Are not speculative or do not create unreasonable leverage or risk.
    4. Result in an improved capital structure or better asset/liability match.
    5. Reasonably pass the risk evaluation required by these guidelines.
- The execution of any interest rate swap or option transaction shall be subject to an independent review to ensure that its terms and conditions reflect a fair market value of such agreements at the date and time of its execution.

➢ <u>Counterparty Risk Assessment</u>

- The University will only do business with highly rated counterparties or parties who support the counterparties' obligations. The University will structure swap agreements to protect itself from credit deterioration of counterparties, including the use of credit support annexes or other forms of credit enhancement to secure counterparty performance.
  Such protection shall include any terms and conditions that the University deem necessary and appropriate or in the University's best interest.
- The University shall enter into interest rate swap transactions only with qualified swap counterparties. Qualified swap counterparties shall be rated at least "Aa3" or "AA-", or equivalent by any two of the nationally recognized rating agencies (i.e. Moody's, Standard and Poor's, and Fitch) and not less than A2 or A by the other rating agency, or have, as support for their obligations, a "AAA" subsidiary or other entity (e.g. bond insurer) as rated by at least one nationally recognized rating agency. In addition, the counterparty must have a demonstrated

record of successfully executing swap transactions as well as creating and implementing innovative ideas in the swap market.

- For lower rated (below "Aa3" or "AA-") counterparties, the University shall seek credit enhancement in the form of:
    1. Contingent credit support or enhancement
    2. Collateral consistent with the policies contained herein

  Such enhancement needs to raise the counterparty's credit quality to the level of qualified swap counterparties.

➢ Swap Analysis and Participant Requirements

- With any swap, the University will conduct a review to include each of the following, where appropriate:
    1. Identify the proposed benefit and potential risks, which shall include, but not limited to, those risks outlined herein.
    2. Provide independent analysis of potential savings from a proposed transaction.
    3. Determine fixed versus variable rate and swap exposure before and after the proposed transaction.
    4. Evaluate Market Net Termination Exposure1 (as outlined herein) for all existing and proposed transactions at the University.
    5. Consider the extent it deems relevant, any rating reports or criteria regarding interest rate swaps by rating agencies.

➢ In reviewing proposed or possible interest rate swaps or options, the University shall consider each of the following types of risks, as applicable:

1. Counterparty Risk - The risk of a payment default on a swap by an issuer's counterparty.
2. Termination Risk - The risk that a swap has a negative value and the issuer owes a "breakage" fee if the contract has to be liquidated.
3. Tax Risk - A mismatch between changes in the rate or price on an issuer's underlying bonds and the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut, that results in an increase in the ratio of tax-exempt to taxable yields.
4. Basis Risk - A mismatch between the rates on an issuer's underlying bonds and the rate paid under the swap (e.g. a tax-exempt variable rate issue which trades at 62% of LIBOR while the issuer only receives 60% of LIBOR under the swap).
5. Tax Exemption Risk - The risk that the transaction may make the issuer's related bonds taxable.

6. Liquidity/Remarketing Risk - The risk that an issuer cannot secure a cost-effective renewal of a Letter or Line of Credit or suffers a failed auction or remarketing with respect to its variable-rate bonds.

- <u>Legal and Contractual Requirements</u>
  Unless otherwise approved by the University, the University will use standard ISDA swap documentation including the Schedule to the Master Agreement and a Credit Support Annex. The University may use additional documentation if the product is proprietary or the University deems, at its sole discretion, that such documentation is otherwise in its interest.
    - Terms and Notional Amount of Swap Agreement
        - The University shall determine the appropriate term for an interest rate swap agreement on a case-by-case basis. In connection with the issuance or carrying of bonds, the term of the swap agreement between the University and qualified swap counterparty shall, generally, not extend beyond the final maturity date of existing debt of the University for the related bonds, or in the case of a refunding transaction, beyond the final maturity of the refunding bonds. For purposes of calculating net exposure, credit will be given to any fixed versus variable rate swaps that offset termination exposure for a specific bond transaction.
        - For variable rate transactions, credit may also be given for any assets used to hedge a transaction, as long as, in the University's judgment, such assets are reasonably expected to remain in place on a coterminous basis with the swap. The University shall negotiate the terms and conditions of any swap, in accordance with the University's best interest and subject to the provisions of applicable law, such as the Mississippi Revised Code. The University reserves the right to waive or alter its own guidelines.
        - The swaps between the University and each counterparty shall include, as appropriate, payment, term, security, collateral, default, remedy, termination, and other terms, conditions and provisions the University deems necessary or desirable.
        - Subject to the provisions contained herein, The University swap documentation and terms should include the following:
            1. Downgrade provisions triggering termination will not be worse than those affecting the counterparty.
            2. Governing law for swaps will be New York law, but should reflect Mississippi authorization provisions.
            3. The Jurisdiction of Adjudication shall be Mississippi.

4. The specified indebtedness related to credit events in any swap agreement should be narrowly drafted and refer only to specific debt.
5. Collateral thresholds should be set on a sliding scale reflective of credit ratings (see ‘Collateral’ below).
6. Eligible collateral as set forth in the ‘Collateral’ section below.
7. Termination value should be set by "market quotation" methodology, when the University deems appropriate.
8. The University should only agree to an Additional Termination Event for the University to the extent that the ratings on the applicable University bonds fall below a ratings trigger acceptable to the University and the counterparty and no form of credit support or enhancement is in place.

- Termination Provision

  All swap transactions shall contain provisions granting the University the right to optionally terminate a swap agreement at any time over the term of the agreement. Such a provision shall be required even if any termination is at market. In general, exercising the right to terminate an agreement should produce a benefit to the University, either through the receipt of a payment from a termination or, if the termination payment is made by the University, in conjunction with a conversion to a more beneficial (desirable) debt obligation of the University, as determined by the University.

- Collateral

  As part of any swap agreement, the University may require collateralization or other forms of credit enhancements to secure any or all swap payment obligations. As appropriate, the University may require collateral or other credit enhancement to be posted by each swap counterparty under the following circumstances:

  1. Each counterparty to the University may be required to post collateral if the credit rating of the counterparty or parent falls below the "AA" category. Additional collateral for further decreases in credit ratings of each counterparty shall be posted by each counterparty in accordance with the provisions contained in the collateral support agreement to each counterparty with the University.
  2. The University will determine threshold amounts

on a case-by-case basis. The University will determine the reasonable threshold limits for the initial deposit and for increments of collateral posting thereafter.

3. In determining maximum uncollateralized exposure, the University will consider and include, as applicable, financial exposure to the same corporate entities that it may have through other forms of financial dealings, such as securities lending agreements and commercial paper investments.
4. Collateral shall be deposited with a third party trustee, or as mutually agreed upon between the University and the counterparty.
5. A list of acceptable securities that may be posted as collateral and the valuation of such collateral will be determined and mutually agreed upon during negotiation of the swap agreement with each swap counterparty.
6. The market value of the collateral shall be determined on at least a monthly basis, or more frequently, if the University determines it is in the University's best interest, given the specific collateral security.
7. The University shall determine on a case-by-case basis whether other forms of credit enhancement are more beneficial to the University.

➢ <u>Limitations on Termination Exposure To a Single Counterparty</u>

- In order to diversify the University's counterparty credit risk and minimize the University's credit exposure to any one counterparty, limits will be established for each counterparty based upon both the credit rating of the counterparty and the relative level of risk associated with each existing and proposed swap transaction. Below are general termination exposure guidelines, with respect to whether the University should enter into an additional transaction with an existing counterparty. The University may make exceptions to the guidelines at any time, to the extent that the execution of a swap achieves one or more of the goals outlined in these guidelines or provides other benefits to the University.
- In general, the maximum Net Termination Exposure to any single counterparty should be set so that it does not exceed a prudent level, as measured against the gross revenues, available assets or other financial resources of the University.
- Such guidelines will not mandate or otherwise force automatic termination by the University or the counterparty. Maximum Net

Termination Exposure is not intended to impose retroactively any terms and conditions on existing transactions. Such provisions will only act as guidelines to make a determination as to whether the University should execute a proposed transaction, given certain levels of existing and projected net termination exposure to a specific counterparty. The guidelines below are not intended to require retroactive, additional collateral posting for existing transactions. Collateral posting guidelines are described in the "Collateral" section above.

- The calculation of net termination exposure per counterparty will take into consideration multiple transactions, some of which may offset the overall exposure to the University.
- Under this approach, the University will set limits on individual counterparty exposure based on existing as well as new or proposed transactions. The sum of the current market value and the projected exposure shall constitute the Maximum Net Termination Exposure. For outstanding transactions, current exposure will be based on the market value as of the last quarterly swap valuation report provided by the Financial Advisor. The University will calculate the projected exposure based on the swap's potential termination value. The exposure should take into account any historical or projected adverse changes in interest rates, applied over the remaining term of the swap. For purposes of this calculation, the University shall include all existing and projected transactions of an individual counterparty and all transactions will be analyzed in aggregate, such that the maximum exposure can be determined.
- The exposure thresholds will be tied to the credit ratings of the counterparties and will be evaluated as to whether collateral has been posted, as shown in the table below.

**Counterparty Credit Exposure Recommended Limits**

| **Credit Rating** | **Maximum Collateralized Exposure** | **Maximum Uncollateralized Exposure** | **Maximum Net Termination Exposure** |
|---|---|---|---|
| AAA | n/a | $25 million | $50 million |
| AA | $25 million | $25 million | $50 million |
| A | $25 million | $10 million | $35 million |
| BBB | $15 million | $0 million | $15 million |
| Below BBB | None | None | None |

The University will periodically review said exposure thresholds to confirm the existing rating of the counterparty and ensure they remain appropriate. If counterparty has more than one rating, the lowest rating will govern for purposes of calculating the level of exposure. If counterparty exceeds the exposure limit, the University shall conduct a review of the exposure limit per counterparty and shall explore remedial strategies to mitigate this exposure.

- <u>Ongoing Management</u>
  - The University will seek to maximize the benefits and minimize the risks it carries by actively managing its swap program. This will involve the Financial Advisor and swap counterparties frequently monitoring market conditions for emergent opportunities and risks.
  - Active management may require modifications of existing positions including, for example:
    1. Early termination;
    2. Shortening or lengthening the term;
    3. Sale or purchase of options; or
    4. Use of basis swaps.

- <u>Ongoing Reporting Requirement</u>

  The University's financial advisor or swap counterparties will provide a written status report on all interest rate swap agreements entered into by the University. The status report is to include the following:
    1. A description of all outstanding interest rate swap agreements, including bond series, type of swap, rates paid and received by the University, total notional amount, average life of each swap agreement, remaining term of each swap agreement.
    2. Highlights of all material changes to swap agreements or new swap agreements the University enters into since the last report.
    3. Termination exposure of each of the University's interest rate swap agreements on a monthly basis.
    4. The credit rating of each swap counterparty and credit enhancer insuring swap payments, if any.
    5. A summary of swap agreements that were terminated or that have expired.
    6. Swaps Accounting Treatment
        - The University shall comply with any applicable accounting standards for the treatment of swaps and related financial instruments. The University's finance team shall implement the appropriate accounting standards in consultation with its external auditors.

**Definitions of Interest Rate Swap Terminology**

- Interest Rate Swap - contract between two parties, referred to as "counterparties", to exchange interest rate payments at specified dates in the future. One party under the swap contract normally makes payments based on a fixed rate while the other party makes payments based on a variable (floating) rate.

- Interest Rate Cap - a series of options that pays its holder the positive excess, if any, between a floating index, e.g. LIBOR, and a pre-determined fixed rate (strike price).

- Interest Rate Floor - a series of options that pays its holder the positive excess, if any, between a pre-determined fixed rate (strike price) and a floating index.

- Interest Rate Collar - the simultaneous purchase and sale of a Cap and a Floor on a floating index

- Rate Lock - an interest rate hedge that is cash-settled at maturity based on the prevailing level of an agreed upon underlying index, e.g. the MMDTM (Municipal Market Date Index)'AAA' scale.

- Basis Swap - an agreement between two parties to exchange interest payments based on different variable-rate indices, e.g. SIFMA (formerly BMA) vs. LIBOR; a floating-to-floating swap.

- Forward Swap - a swap executed today, the exchange of interest payments on which starts at some future date (the Effective Date), based on rates and terms determined and agreed upon today.
    - On the Trade Date of a Forward Swap:
        - Enter into forward swap agreement
        - Set terms of the swap
        - Pay commitment fees for swap and bond insurance (if done in conjunction with a Synthetic Forward Refunding of bonds)
    - On the Effective Date of a Forward Swap:
        - Begin net exchange of swap payments

- Swaption - an option on a forward swap. The purchaser of a swaption (counterparty) has the right, but not the obligation, to compel the swaption seller (usually an issuer) to enter into a pre-negotiated swap agreement at some future date (exercise date). In exchange for this right, the swaption purchaser pays the swaption seller a premium amount. This amount can be paid upfront, at some future date, or as an annuity over time.

- Notional Amount - the principal or face amount by which the respective swap rates are multiplied to determine the interest owed by each party under the transaction. Unlike a bond transaction, principal payments are normally not exchanged in an interest rate swap. The notional principal amount instead only acts as a placeholder used for calculating swap payments.

- Synthetic Fixed-Rate Debt - the issuance of variable-rate debt in conjunction with a floating-to-fixed ("fixed-payer") swap.

- Synthetic Variable-Rate Debt - the issuance of fixed-rate debt in conjunction with a fixed-to-floating ("fixed-receiver") swap.

- SIFMA (formerly BMA) Index - a composite of 250+ high-grade, weekly reset, tax-exempt Variable-Rate Demand Obligations (VRDO's). The Securities Industry and Financial Markets Association (SIFMA) index is the benchmark floating-rate index in the tax-exempt or municipal swap market.

- LIBOR - the London InterBank Offered Rate is the rate on U.S. dollar denominated deposits with maturities from 1 day to 12 months transacted between banks in London. LIBOR is the benchmark swap floating index in the taxable or corporate swap market.
- Percentage of LIBOR Swap - a swap whose floating leg is reset based on a percentage of a taxable rate (e.g. 67% of LIBOR) rather than a true tax-exempt rate, e.g. the SIFMA Index, A % of LIBOR swap generally carries a lower expected or nominal fixed rate than a comparable SIFMA swap to compensate the fixed payer (issuer) for the assumption of basis and tax risk.

  Note: for a Synthetic Fixed-Rate Debt transaction using a % of LIBOR swap, the actual, effective fixed rate paid may be higher or lower than the nominal swap rate depending on how well the swap floating index tracks the issuer's variable-rate bond cost.

- Basis Risk - a shortfall between the interest rate paid on an issuer's underlying bonds and the rate received on a swap hedge. A tax-exempt variable-rate bond issue hedged with a % of LIBOR swap exposes the issuer to Basis Risk. Basis Risk normally refers to a temporary shortfall due to technical factors, e.g. supply/demand for tax-exempt VRDO's, as opposed to a permanent shortfall caused by structural factors (see Tax Risk).

- Tax Risk - a form of Basis Risk resulting from tax law changes such that the federal or state tax exemption of municipal debt is eliminated or its value reduced. This will cause municipal bond yields to rise relative to taxable bond yields.

- Synthetic Forward Refunding - the execution of a floating-to-fixed ("fixed-payer") swap or the sale of an option ("swaption") to a counterparty to enter into such a swap. A Synthetic Forward Refunding enables an issuer of callable, fixed-rate debt to hedge the fixed-rate today on a future refunding or to monetize the savings from the optional redemption (call) feature on Bonds that cannot be currently called or advance refunded. At the Forward Delivery Date as part of a Synthetic Forward Refunding an issuer would:

1) • Issue variable-rate refunding bonds
• Redeem prior bonds with the refunding VRDO's
• Begin net exchange of swap payments.

OR

2) • Issue fixed-rate refunding bonds
• Redeem prior bonds with refunding bonds
• Terminate swap contract (termination payment made from refunding bond proceeds)

- Exercise Date - the date on which an option can be exercised during its life.

- Strike (Exercise) Price/Rate - the price or rate paid by the option purchaser to the option seller if the option is exercised.

- American Option - an option that can be exercised at anytime during its life.

- Bermudan (Multi-Exercise) Option - an option that can be exercised only on multiple, pre-determined dates over its life

- European (One-Time Exercise) Option - an option that can only be exercised on a single date after which it expires.

- Option Value - reflects the probability of the underlying index rate finishing below the strike price. The value of an option is equal to the sum of its Intrinsic (market rate-strike price) + its time (potential) value. For a fixed-payer Swaption, the lower the strike (exercise) rate relative to the market fixed swap rate, the higher the intrinsic value. The more time remaining until expiration, the higher the time value of an option (i.e. the more chance the option could finish "in-the-money").Option values are calculated using complex mathematical formulas such as the Black-Scholes Model.

- Termination Payment Risk - the risk that an issuer is forced to liquidate a swap when it owes a termination payment to its counterparty.

- Counterparty Credit Risk - the risk of a payment default on a swap by an issuer's counterparty that results in economic loss to the issuer.

- Liquidity/Remarketing Risk - the risk that an issuer cannot secure renewal of a Letter (Line) of Credit or suffers a failed auction with respect to variable-rate bonds.

- Net Termination Exposure - the aggregate termination payment for all existing and projected swap transactions that would be paid by an individual counterparty.

## RELATIONSHIP MANAGEMENT POLICY

### Purpose

To outline the policy as it pertains to the efficient and effective management of the University's financial institution relationships.

### General Guidelines

- The Office of the Treasurer will serve as the first point of contact for all financial institutions. University units and their staffs should not deal directly with any financial institution regarding University accounts.

- The suitability of utilizing a financial institution's services is to be assessed by the Office of the Treasurer. The selection criteria will include, but is not limited to: knowledge of higher education, quality of customer service, pricing, financial strength, ability to meet future needs.

- The University Treasurer shall maintain efficient operations of the University's relationships to achieve the following objectives:
    - Access to credit and non-credit services
    - Management of costs and quality
    - Monitoring risks
    - Developing a partnership approach

- The Treasurer's Office is responsible for developing a methodology for ongoing evaluation and performance measurement of service providers.

- Departments or divisions within the University will not be allowed to utilize the University's financial account information without prior approval from the Associate Treasurer. The requesting department or division will be required to submit a 'Request for Authorization to Use the University's Bank Account Information' form to the Office of the Treasurer.

## PROCEDURES

**TO REQUEST A WIRE TRANSFER AS PAYMENT FOR A VENDOR**

*(See also 'Wire Transfer Policy'.)*

1. Complete the "Wire Transfer Request" form. (All information is required.)
2. Return completed form to the Office of the Treasurer.
3. Upon the Treasurer's approval, the wire will be initiated using the instructions provided.
4. The requesting party will be notified when a wire confirmation notice is received.

**TO OPEN BANK ACCOUNT USING THE UNIVERSITY'S NAME AND/OR TAX IDENTIFICATION NUMBER**

1. Complete a "Request to Open Bank Account Using the University's Name and/or Tax Identification Number" form.
2. Forward completed form to the Treasurer's Office for 'University Approvals'.
3. The Treasurer will review the request to determine if there is adequate justification for the need to establish a bank account. If the Treasurer approves the request, the form will be forwarded to the Senior Vice President of Finance and Operations for final approval.
4. Upon the Senior Vice President's approval, the initiator will be notified of the final decision via email.
5. The Office of the Treasurer will proceed with opening the new account based on the information presented in the request form.
6. The initiator will be informed of the accounts details, including their duties, rights, and responsibilities as it pertains to the new account.
7. If the Treasurer does not approve the request, it will not be forwarded to the Senior Vice President. A statement explaining the reason for disapproval will be sent via email.
8. The request may be resubmitted after any issues have been addressed.
9. To close a bank account, the authorized University personnel should submit the request in writing to the Treasurer's Office. Upon approval from the Senior Vice President, the Treasurer's Office will facilitate the request.

**TO ESTABLISH A PAYPAL ACCOUNT USING THE UNIVERITY'S FINANCIAL INFORMATION**

1. The requesting department must complete the "Request for Authorization to Use the University's Bank Account Information" form.
2. Forward completed form to the Treasurer's Office for 'University Approvals'.
3. The Treasurer will review the request to determine if there is adequate justification for the need to establish a PayPal account. If the Treasurer approves the request, the form will be forwarded to the Senior Vice President of Finance and Operations for final approval.
4. Upon the Senior Vice President's approval, notification of the final decision will be sent via email.
5. The initiating department must then submit a formal request to the JSU Information Technology Department, which includes a signed copy of the original request and a copy of the decision sent via email, to begin the account setup. *(Note: The University Treasurer will be the designated account administrator for all PayPal accounts bearing the University's name, tax identification number, and/or financial information.)*
6. Before the PayPal account is made available for use to the public, the requesting department will work in conjunction with the Office of the Treasurer, the Information Technology Department, and the Office of Financial Services to perform a test transaction to ensure the account is operating properly.