

E-2. DEBT POLICY

PURPOSE AND PHILOSOPHY

This policy sets forth the policies and philosophy of the University regarding debt by establishing a framework to guide decisions regarding the use and management of debt. As the University establishes and fulfills institutional priorities through its strategic planning processes, including through campus master planning, the University will consider utilizing an appropriate mix of financing and funding sources, including state funding, gifts, internal reserves and investments, and external debt. This policy will help ensure that institutional debt capacity is allocated strategically, and that debt levels and the types of debt utilized are maintained at levels that are appropriate and responsible in light of the University's financial strength and risk tolerance.

POLICY STATEMENT

While debt may serve as a valuable source of funding for large capital projects, the amount of debt incurred, and the types of debt maintained, may directly impact the financial health and credit rating of the University. Accordingly, the use of institutional debt should be limited to projects that further to the mission and strategic objectives of the University, and alternative funding sources (e.g., joint ventures, grants, private gifts, real estate development, etc.) should be considered when appropriate to ensure the most advantageous source of funding is used for each project within the context of this policy.

POLICY OBJECTIVES

The primary objective of this policy is to provide a framework for evaluating and periodically reviewing the use of debt within the University in order to:

1. strategically utilize and structure debt within the University to fund mission-critical projects;
2. manage debt within the University in a manner intended to achieve and maintain the highest possible credit rating to ensure that the University is able to issue debt and borrow at favorable rates, which may include interaction with credit rating agencies;
3. establish key financial ratios to provide the Board of Trustees and other key leadership with appropriate feedback and assurances the University's use of credit does not violate established borrowing limits or otherwise exceed the prudent levels of borrowing;
4. optimize the University's debt portfolio as a whole, while also optimizing transactional and project-specific debt by considering and using an appropriate mix of debt and other funding sources to minimize the cost of capital while maintaining appropriate exposure to changes in interest rates and market exposure; and
5. delineate and assign responsibilities for the implementation, management, and oversight of the matters relevant to this Debt Policy.

PROCEDURES AND GUIDELINES

In evaluating each potential project, the purpose, affordability and capital needs, timing, risk management, and financial structure of the relevant project should be evaluated to determine the best utilization and management of debt, if any, in connection with such project. While the Board of Trustees retains ultimate discretion to approve or deny any proposed use of debt, the Board of Trustees will generally consider the following non-inclusive list of criteria in reaching its decision:

1. Projects considered for debt-financing must have a defined, supportable plan of total funding (accounting for both construction and operating costs) approved by senior leadership and by the Board of Trustees, and all relevant matters regarding debt-funding must, to the extent possible, be made prior to commencement of the proposed project.
2. All projected revenues, expenses, and related cost savings should be estimated conservatively and realistically with appropriate buffers for likely and remote risks and changes.
3. No more than twenty percent (20%) of the aggregate funds generated by the University from tuition increases should be designated for annual debt service.
4. The use of debt should only be approved for projects that the Board of Trustees determines will directly or indirectly support and further the mission and strategic objectives of the University, and preference will be afforded to the highest priority projects, as determined by the Board of Trustees.
5. To the extent possible, bond financing should be coordinated in a manner that accommodates financing multiple projects in a single issuance in order to reduce borrowing costs.
6. Overall debt should be limited to a level that, when viewed in the context of the current and future strategic objectives of the University, is intended to optimize long-term creditworthiness.
7. The University's borrowing capacity (including the levels and affordability of existing and future debt), together with the overall financial condition and performance of the University, should be routinely evaluated and monitored through regular reviews of (i) appropriate financial ratios; (ii) public ratings; (iii) the merits and feasibility of projects being financed, or currently under consideration for financing; and (iv) other relevant industry data such as comparison to other similarly-situated institutes of higher-education.
8. When evaluating existing debt and/or issuing or considering the issuance of new debt, an analysis should be undertaken to evaluate the costs and benefits of various financing and liquidity options, as well on the impact of the available options on the University's credit rating and the cost of any future borrowing to the extent ascertainable, in order to utilize the lowest cost sources of financing, in the aggregate, across the University.
9. Portfolio allocation to variable-rate debt will have an appropriate relationship to short-term liquid assets and should not exceed fifty percent (50%) of total institutional debt; *provided, however*, that allocations to variable-rate debt may be managed or adjusted through the issuance of new debt, refinance and alternative re-funding opportunities, and/or the use of interest rate swaps and other derivative products such as caps and collars, in each case subject to the Board of Trustees' approval of the appropriateness of such products in light of the University's overall

objectives and risk tolerances regarding debt products; *provided, however*, that the Board of Trustees will not approve the use of any hedging, swaps, or other derivative products without first undertaking a thorough analysis of the relevant tax, interest rate, liquidity, counterparty, and basis risk factors and consequences, as well as any other matters that may impact the institutional risk to the University.

10. Annual interest and amortized principal payments for all debt will be reflected and accounted for in the annual operating budget, or in specific designated or restricted funds reflected in the appropriate budget, as applicable.
11. The University will regularly monitor current and future potential refinancing and re-funding opportunities with respect outstanding debt to identify situations where the net present value of refinancing or re-funding existing debt may be positive, or where such opportunity is reasonably expected to further the other financial objectives of the University (e.g., increases to cash flow, reducing reserve requirements, obtaining payment relief, realizing administrative efficiencies, etc.); *provided, however*, that all such opportunities must be approved by the Board of Trustees and consistent with the mission of the University.
12. The University will invest bond proceeds appropriately to achieve the highest return that is consistent with the mission and overall risk tolerance and debt profile of the University, in each case subject to all applicable arbitrage restrictions and limitations.

DEBT RATIOS, PROJECT CONSIDERATION GUIDELINES

In order to provide a clear, high-level assessment of the overall financial health of the University over time, the following ratios shall be regularly computed, evaluated, and reported to the Board of Trustees for review in accordance with this policy.

1. Primary Reserve Ratio.
 - Expendable Net Position/Total Expenses – This ratio provides a snapshot of the University’s financial strength and flexibility. A positive ratio, or an increasing trend over time, may indicate increasing strength in financial condition.
2. Viability Ratio.
 - Expendable Net Position/Long Term Debt – This ratio measures the University’s availability of expendable net position to cover debt. A strong viability ratio is one measure of the University’s ability to respond to adverse conditions, attract capital from external sources, and maintain flexibility to fund new objectives.
3. Return on Net Position Ratio.
 - Change in Net Position/Total Assets – This ratio measures total economic return and can be used to indicate positive and negative changes to the University’s financial position over time.

4. Net Income Ratio.

- Change in Unrestricted Net Position/Total Unrestricted Revenue – This ratio measures success of financial operations for a given year.

When taken together and considered with other relevant financial data, the above ratios help provide insight on the overall health of the University's debt load. Caution should be taken to avoid overreliance on any single ratio viewed in isolation, and adjustments to these ratios may be appropriate in various circumstances, such as adjustments to reflect computations used by rating agencies or credit bureaus, and attention should be paid to consistency between computations.

ASSIGNMENT OF RESPONSIBILITIES

The University President and the Executive Vice President are directly responsible for all matters relating to approved capital debt issuances and debt management. The authority to execute such documents and other instruments in connection with approved debt activities is delegated to the Vice President for Business and Finance and the Chief Financial Officer.

The Associate Vice President for Facilities Management and the University Architect will share primary responsibility in estimating and defining project costs and obtaining the Board of Trustees' approval of projects involving the incurrence or issuance of any indebtedness, and these offices will work with the Executive Vice President, Vice President for Business and Finance, Chief Financial Officer, and Vice President for Development to explore the most advantageous funding options for each proposed project.

The Vice President for Business and Finance or designee will coordinate with the Associate Vice President for Facilities Management to oversee the capital budgeting and funding plans for Major Projects.

The Vice President for Business and Finance, or its designees, will work with the Controller, Bond Counsel, Facilities, and other appropriate parties to prepare and review the documents and filings necessary for any bond issuance or any review or visit by rating agency.

The Controller's Office will maintain a schedule of current and forecasted debt and associated payment of principal, interest, and fees. The Controller will provide debt service budgets in the annual budget process and individually to all campus units which are assessed debt service, as well as computing the ratios required under this policy. The Controller's Office is also responsible for the accounting, reporting and other disclosures, monitoring compliance with covenants and private use issuances, and arbitrage calculations associated with existing debt issuances.

The Office of Cash Management and Treasury will have responsibility for investing unspent bond funds according to applicable University policies (including this policy) in order to achieve the highest return that is consistent with the mission and overall risk tolerance and debt profile of the University, in each case subject to all applicable arbitrage restrictions and limitations.

For the avoidance of doubt and notwithstanding anything to the contrary in this policy, the University may not issue or incur any indebtedness, nor may it make any material modifications to any indebtedness, without the Board of Trustees' prior approval.

REPORTING AND REVIEW OF DEBT AND FINANCIAL PERFORMANCE

A annual report containing a detailed summary of the ratios and reporting requirements outlined above, as well as a summary of the University's current and proposed debt financing and any other information that may be requested by the Board of Trustees in connection with its ongoing review and monitoring of use or issuance of debt by the University, or otherwise relating to the overall financial condition of the University, shall be prepared and submitted to the Board of Trustees at least thirty (30) days prior to the Board of Trustees' review of the annual budget for the University, and at such other more frequent intervals as the Board of Trustees may request. In connection with its review and approval of the annual budget, the Board of Trustees will also review and consider for approval an annual capital project plan.

POLICY REVIEW AND UPDATES

In recognition that creditworthiness, borrowing preferences and costs, risk tolerances, and capital availability may change over time, the Board of Trustees will periodically review and update these policies as the Board of Trustees determines to be necessary or appropriate to ensure that sound debt and financial management practices are maintained across the University at all times, in each instance taking into account the generally accepted practices and standards applied by other similarly-situated colleges and institutions of higher education.

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