The purpose of this Debt Policy is to guide the issuance and prudent use of debt in financing capital projects to achieve the University’s mission and strategic objectives. Financial leverage, and particularly tax-exempt debt, provides a low-cost source of capital to meet the University’s strategic objectives. Debt is both an important ongoing component of the University’s capital structure and a finite resource. Decisions regarding the use of financial leverage should balance the University’s current and future financial health, taking into consideration the cost of capital, budget impact, strategic priorities and other relevant factors.

Scope
Debt includes all short and long-term obligations, guarantees, and other instruments that commit the University to future payments. The assumption of debt, both direct and indirect, is subject to approval by the Board. Leases payable, lines of credit, and other accounts payable assumed during the normal course of business are excluded from the definition of debt for the purposes of this policy. Further, debt incurred incidental to the receipt of gifts and bequests, while includable in debt ratio calculations, also is excluded from this policy.

Objectives
The objectives of this policy are to 1) maintain and continue to improve the University’s debt rating, 2) to provide financing flexibility by allowing continued capital markets access at a low cost, and 3) to set broad guidelines for debt capacity and fixed vs. variable rate mix, and use of various financing options to reduce risk and ensure budget feasibility.

Authority
Given that the University has limited debt resources, the Administration will use debt financing for high-priority projects with the approval of the Board. This authorization process will include the prioritization of alternative uses of capital, including construction projects, equipment purchases, real estate acquisitions, and other capital projects. Judgment by the Administration and the recommendation of the Finance Committee ultimately will determine the appropriate uses and structure of the University’s debt financing.

Financial Feasibility
Each project proposed for debt financing must be supported by an achievable financial plan that includes servicing the debt and meeting any new or increased operating costs. A debt-financed project must have an established funding source prior to the issuance of the debt. The useful life of a project should be considered when evaluating the use of
long-term debt to finance a capital investment. Normally, the term of the debt should not exceed the estimated useful life of the capital asset being acquired.

**Financial Comparisons and Ratios**

In evaluating debt capacity and considering alternative debt structures, the Administration will take into consideration available data from peer institutions. These data should include relative debt levels, financial ratios and type of debt.

The University will limit its overall debt to a level that will maintain an acceptable credit rating with the bond rating agencies. These agencies help maintain the confidence of the public and purchasers of debt regarding the ability of a borrower to service and repay bonds. In order to meet this objective, this policy establishes targets based on financial ratios routinely used by rating agencies. The Administration will review annually all key rating agency ratios to monitor compliance with rating guidelines.

The following four ratios are debt ratios specific to this policy. Ratios 1 and 2 will be used to measure balance sheet health; Ratio 3 to measure the operating strength of the University and Ratio 4 to measure the ability of the University to pay its outstanding debts. A minimum value is listed for each ratio.

**Ratio 1 – Unrestricted financial resources to direct debt**

Measures coverage of direct debt by the most liquid resources

\[
\text{Unrestricted net assets divided by direct debt}
\]

Minimum value .50

**Ratio 2 – Total financial resources to direct debt**

Measures coverage of direct debt by total financial resources including permanent endowments

\[
\text{Total financial resources divided by direct debt}
\]

Minimum value 1.80

**Ratio 3 – Operating Margin**

Indicates the excess margin (or deficit) by which annual revenues cover operating expenses

\[
\frac{\text{Adjusted total unrestricted revenues less total unrestricted operating expenses, divided by adjusted total unrestricted revenues}}{}
\]

Minimum value 2.0%

**Ratio 4 – Direct debt service coverage**

Measures actual margin of protection for annual debt service payments from annual operations

\[
\frac{\text{The sum of annual operating surplus (deficit) plus depreciation expense plus interest expense divided by total of principal and interest payments}}{}
\]

Minimum value 2.5
Variable rate debt
A degree of exposure to variable interest rates within the University’s debt portfolio is desirable in order to benefit from historically lower average interest costs. Target for variable rate debt to total debt is 30%.

Policy Review
The external environment and the University’s circumstances are constantly subject to change. Accordingly, this policy should be reviewed and revised periodically, as necessary to respond to these changes and to remain consistent with the University’s objectives.