

Board Policy on Debt Management
Board of Trustees of Oregon Institute of Technology

1.0 Authority of the Board of Trustees

1.1 Under ORS 352.107, Oregon Institute of Technology is authorized to borrow money and incur debt. Also, under ORS 351.365 to 351.379, the University is eligible to continue to receive proceeds from state bonds, or issue its own revenue bonds, or both, subject to the requirements of those statutes.

1.2 With this new authority, Oregon Tech is responsible for the management of its debt portfolio and to ensure compliance with applicable compliance requirements.

2.0 Previous Rules and Policies

This policy supersedes the following Oregon University System rules and policies, which shall have no further effect at the University: Debt Policy, approved March 1, 2010; and Interest Rate Risk Management Policy, approved March 1, 2010.

3.0 Purpose

This policy sets forth the principles that will govern the use of debt to finance University capital projects and assigns responsibilities for the management of University debt. This policy describes the framework for approving debt financing for projects and for managing the University's debt capacity and debt affordability, which are important tools for furthering the University's mission.

The University seeks to achieve the lowest cost of capital that is consistent with its risk tolerance and the principal of intergenerational equity. While the Debt Management Policy is a stand-alone policy, it should be considered in conjunction with liquidity and investment policies.

4.0 Definitions

4.1 **"Bank Products"** means financing obtained from banks or other third parties, rather than through capital markets, such as a line of credit.

4.2 **"Board"** means the Oregon Institute of Technology Board of Trustees or the Executive and Audit Committee when authorized to act on behalf of the Board of Trustees.

4.3 **"Commercial Paper"** is a form of short-term unsecured debt that is issued in tranches with maturities of 1-270 days and which must be redeemed or rolled over at maturity.

Commercial Paper may provide interim financing for projects in anticipation of philanthropy, planned issuance of long-term debt or other sources of funds.

4.4 **"State-Paid Debt"** means borrowings that are expected to be repaid from state appropriations. This includes Article XI-G Bonds, Article XI-M Bonds, certain Article XI-Q Bonds, Lottery Bonds, and certain State Energy Loan Program (SELP) loans.

4.5 **"University-Paid Debt"** means borrowings that are expected to be repaid from revenues of the University. This includes Article XI-F(I) Bonds, certain Article XI-Q Bonds, certain SELP loans, Revenue Bonds, Bank Products, Commercial Paper, and alternative financing structures, such as public-private partnerships, that would be either included in the University's balance sheet or considered on-credit by rating agencies.

4.6 **"Internal Financing"** means the short-term loaning of University funds for use on a particular University project. Internal Financing may be utilized for emergency physical plant needs or for other purposes, such as to provide matching funds for Article XI-G Bonds in anticipation of philanthropy.

4.7 **"Revenue Bonds"** means bonds issued by the University based on its own credit rating. For the purpose of this policy, Revenue bonds includes all debt, obligations, or extensions of credit incurred or received by the University, both short- and long-term, that are not Article XI-F(I) Bonds, Article XI-G Bonds, Article XI-M Bond, Article XI-Q Bonds, Lottery Bonds, or SELP loans. Revenue Bonds may be backed by a general or specific revenue pledge of the University and do not require legislative approval.

5.0 Roles and Responsibilities

5.1 The Board of Trustees retains authority and responsibility for:

- 5.1.1 Reviewing and approving capital projects in an amount greater than \$1 million, regardless of source of funding or consideration of debt financing.
- 5.1.2 Reviewing and approving any debt financing in an amount greater than \$1 million.
- 5.1.3 Reviewing and approving land and improvement leases with a total consideration exceeding \$1 million or a lease term over 15 years.
- 5.1.4 Approving this policy, amending this policy as necessary, and reviewing this policy at least every five years.

5.2 The Board delegates to the President, who may further delegate to the Vice President for Finance and Administration, authority and responsibility for:

- 5.2.1 Implementing this policy.
- 5.2.2 Reviewing and approving, provided that doing so is consistent with sound fiscal management and consistent with the ratios defined in Section 7.0 of this policy

and the President or the President's delegate has a good-faith belief that doing so is consistent with best interests of the University:

- 5.2.2.1 capital projects in an amount up to \$1 million, regardless of source of funding or consideration of debt financing;
 - 5.2.2.2 debt financing in an amount up to \$1 million; and
 - 5.2.2.3 land and improvement leases with a total consideration up to \$1 million or a lease term up to 15 years.
- 5.2.3 Establishing a comprehensive compliance program for debt management and post-issuance compliance. Such a program is to clearly assign responsibilities within the University, require the prudent investment of unspent bond funds, and require regular monitoring to satisfy continuing disclosure requirement and ensure compliance with this policy, bond resolutions, bond covenants, and applicable laws, regulations and other requirements. This program must include a post-issuance compliance policy addressing legal requirements imposed by the Securities and Exchange Commission and Internal Revenue Service and all other relevant laws relating to the use of debt, particularly tax-advantaged debt. The post-issuance compliance policy must include, at a minimum, the procedures and systems used to monitor compliance, the responsibilities of the compliance officer, private use and arbitrage analysis requirements, and records management and retention guidelines.
- 5.2.4 Retaining expert advisors, including bond counsel, financial advisors, underwriters, paying agents, and other related service providers in connection with the use, issuance and management of university debt. The solicitation and selection process for such services will comply with the University's procurement requirements. The retention of such advisors should be reconsidered at least every five years.
- 5.2.5 Analyzing and presenting recommendations to the Board in connection with each proposed debt financing transaction reviewed by or submitted to the Board for approval, after (1) identification of the source of repayment for each project, together with proforma financial statements and related assumptions, and (2) consideration of internal coverage requirements for each project and/or auxiliary providing repayment.
- 5.2.6 Pricing of Revenue Bonds, recognizing that the Oregon State Treasurer possesses authority to price debt issued as part of the debt programs administered by the State.
- 5.2.7 For previously issued state general obligation bonds from which University received proceeds, approval of refunding opportunities determined by the State Treasurer to be in the best interests of the State of Oregon.
- 5.2.8 Overseeing management of daily activities relating to debt use, management and issuance.
- 5.2.9 Entering into or endorsing reimbursement resolutions, authorization resolutions, and such other documents as may be necessary for any debt issuance previously authorized by the Board, the President, or the President's delegate.
- 5.2.10 Approving Internal Financings up to limit provided in Section 8.0 of this policy.

6.0 Conditions Governing Issuance of Debt

6.1 The University may use debt financing for academic, administrative, and auxiliary facilities and equipment, as well as any other infrastructure needs or property acquisitions, that are consistent with the University's mission and strategic priorities and part of the University's capital plan.

6.2 No University-Paid Debt or State-Paid Debt in an amount greater than \$1 million will be issued or sought without prior approval of the Board, including land and improvement leases with total payments greater than \$1 million over the term of the lease. When the University issues or seeks University-Paid Debt, the Board's authorizing resolution will generally include its finding, based on an analysis of debt affordability and capacity, that the financed project is both self-liquidating and self-supporting. The Board may make exceptions for projects that further the University's mission, even if not self-liquidating and self-supporting, taking into consideration other unobligated and legally-available revenues of the University.

6.3 No University-Paid Debt in an amount greater than \$1 million will be issued or sought without prior analysis and notification to the Board of all covenants associated with such issue.

6.4 University-Paid Debt may be repaid from general revenues of the University or may be secured by a specified revenue stream.

6.5 When issuing or seeking University-Paid Debt or State-Paid Debt:

6.5.1 The University will evaluate the form of debt that is best suited for the project, taking into consideration debt-type characteristics, costs and risks.

6.5.2 The University will seek the lowest available cost of capital, taking into consideration administrative capacity, the University's risk tolerance, and the need to sustain adequate flexibility to allow the University to achieve its strategic goals.

6.5.3 The University will determine whether to issue debt through the State (if eligible) or independently, taking into consideration the cost of capital, financial flexibility and the use of debt capacity.

6.5.4 The University will identify a source of repayment and demonstrate that sufficient revenues are available to support debt service over the life of the financing.

6.5.5 The maturity and term of debt repayment will be determined based on the expected availability of resources, other long term goals and obligations of the borrowing unit and the University, the useful life of the assets being financed, and market conditions at the time of financing. The term of a debt financing will not exceed 1.2 times the estimated useful life of the property and equipment being financed.

- 6.5.6 If debt is issued through the State, the University will adhere to the requirements set forth by the State.
- 6.5.7 As long as the University intends to remain eligible to receive proceeds from Article XI(F)(I) Bonds or Article XI-Q Bonds to be repaid in whole or in part from University revenues or other moneys under control of the University, the University will not issue Revenue Bonds without first obtaining the approval of the State Treasurer, as provided in ORS 351.369.
- 6.5.8 The University will utilize tax-advantaged debt when legally possible and reasonable and when tax-advantaged debt does not unnecessarily restrict the anticipated usage of the financed facilities. Projects financed with tax-advantaged debt will be identified and tracked to ensure compliance with all tax and reimbursement regulations. Taxable debt will be utilized when the project does not qualify for tax-advantaged debt. The University will aim to amortize any taxable debt before any tax-advantaged debt if that reduces the overall debt cost of the University.
- 6.5.9 In general, fixed-rate debt will be utilized. However, the University may utilize variable-rate debt when appropriate for a particular financing plan, taking into consideration bond market conditions, the University's liquidity position, and risks associated with variable-rate debt (including interest rate risk, remarketing risk and liquidity renewal risk). The University will not issue more than 20% variable-rate debt (including synthetic fixed-rate debt) as a percentage of all University-Paid Debt.
- 6.5.10 Financial covenants and restrictions will be minimized to the extent possible, taking into consideration the long-term capital requirements of the University.
- 6.5.11 The University will use reasonable efforts to utilize debt which provides for sufficient ability to refinance if market conditions or other factors warrant that action. Refinancing may be appropriate if doing so relieves the University of covenants, payment obligations, constraints or reserve requirements that limit flexibility, consolidates debt into a general revenue pledge, or reduces the cost and administrative burden of managing small outstanding obligations. The University recognizes that the Oregon State Treasurer retains authority to refinance debt issued as part of the debt programs administered by the State.

6.6 The University will not enter into any derivative transactions without first adopting a derivatives policy.

7.0 Debt Ratios

7.1 Debt capacity is a subjective measure, typically associated with balance sheet strength and the ability to repay debt on demand. The University's risk tolerance will inform the amount of leverage that can comfortably be assumed.

7.2 Debt affordability is also a subjective measure and typically associated with income statement strength. Operating performance and the ability to meet debt service requirements will inform the affordability of existing and additional debt.

7.3 The University recognizes that its strategy and mission must be the primary drivers of its capital investment and use of debt. Although external credit ratings provide a view on debt capacity and affordability, the University does not manage its debt portfolio to achieve a specific rating. Success in achieving University objectives will over time result in a stronger financial profile and higher ratings.

7.4 The University will monitor five financial ratios to assist the Board in evaluating debt capacity and affordability, as described below.

7.4.1 Viability Ratio (balance sheet leverage ratio)

Expendable Resources (including available resources of the Oregon Tech Foundation) / Debt

Measures the ability to repay debt with financial resources and the ability to use debt to strategically advance the University's mission

7.4.2 Primary Reserve Ratio (income statement leverage ratio)

Expendable Resources (including available resources of the Oregon Tech Foundation) / Total Expenditures

Measures whether financial resources are sufficient and flexible enough to support the University's mission

7.4.3 Debt Burden Ratio (affordability ratio)

Debt Service / Total Expenditures Minus Depreciation Plus Principal Payments

Measures the University's dependence on debt to finance its mission and the relative cost of borrowing to overall expenditures

Guideline maximum debt burden ratio= 7%

7.4.4 Debt Service Coverage (affordability ratio)

3-Year Average Net Operating Income Plus Non-Operating Revenues Plus Interest and Depreciation / Debt Service

Measures the sufficiency of operations on a cash flow basis to cover debt service

7.4.5 Debt / Revenues (income statement leverage and affordability ratio)

Measures the amount of leverage relative to the size of operations

7.5 All ratio calculations will be based on industry standards and include all "direct debt". In addition to bonds and bank debt, direct debt includes capital leases and any off-balance sheet or similar financing structures that would be considered on-credit.

7.6 Indirect debt, such as operating leases, is excluded from the above calculations. However, indirect debt is considered part of the University's "comprehensive debt", which is a

broader measure of the University's debt obligations. The University recognizes that the use of indirect debt has an impact on debt capacity and affordability.

8.0 Internal Financings

Internal Financing may be used when it is determined to be the most appropriate and cost-efficient mechanism for meeting certain financing needs. Unless authorized by the Board, the total value of Internal Financings shall not exceed 10% of the core cash balance of the University's general operating bank account, as projected annually. If the core cash balance of the University's general operating bank account is projected to be inadequate to cover liquidity requirements for any 30-day period in the following 12 months, no Internal Financing will be permitted unless approved by the Board. The maximum term of any single Internal Financing shall not exceed three (3) years.

9.0 Short-Term Financings

The University will not issue Commercial Paper or enter into other short-term financing arrangements using Bank Products without first adopting a Short-Term Financings Policy and seeking input from a consultant with expertise with short-term financing products.

10.0 Reporting Requirements

The Board's Finance and Administration Committee is to be provided a detailed report and update including:

10.1 At least annually or when additionally requested, all outstanding University-Paid Debt and State-Paid Debt (by type, purpose and repayment source, where applicable).

10.2 At least annually or when additionally requested, the amount of outstanding principal, interest rates, maturity dates, debt service requirements and changes in outstanding debt since the previous year's report.

10.3 Upon the release of annual audited financial statements, the debt ratios identified in Section 8.0 above.

10.4 At least annually or when additionally requested, for any variable rate debt, the status and remaining term of any letter of credit or similar liquidity source.

10.5 At least quarterly or when additionally requested, any known or anticipated new debt issuance, use of Internal Financing mechanisms, or accessing of Short-Term Financings regardless of value.

10.6 Significant restructuring or refinancing opportunities.