BOR 05: Debt Management Policy

For Changes

Revision Approved by the Board of Regents, ~~April 19, 2024~~

Contents

1.0 Purpose and Policy

In accordance with the provisions of *RCW* 28B.10.022, 28B.10.300-330, 28B.30.700-780, 28B.140 and 39.94, the Board of Regents (the "Regents") of Washington State University (the "University") has the power and authority to enter into financing contracts secured by the revenues it controls, and not subject to state appropriation, or to borrow money to acquire, construct, and/or equip dormitories, hospitals, clinics, dining halls, facilities for student activities, facilities housing services for students, parking facilities, research facilities, and any buildings or facilities authorized by the legislature. Operating or capital leases are not considered financing contracts for the purposes of this policy.

This policy states the principles that govern the use of debt instruments to finance University capital and infrastructure projects and assigns responsibilities for the implementation and management of the University's debt.

2.0 Debt Subject to Policy

Debt, as the term pertains to this policy, means University obligations for the repayment of borrowed money incurred to fund the construction or acquisition of capital assets, infrastructure and any other University purpose approved by the Regents. This includes, but is not limited to, University general revenue bonds, revenue bonds for various auxiliaries, bank loans, short-term credit facilities such as notes or lines of credit, and any public-private project that would impact the University's credit. It does not include state general obligation bonds or state certificates of participation benefitting the University, except when such obligations are reimbursable by the University.

3.0 Governing Principles

- No debt is issued without prior approval of the Regents, except that the Regents have delegated authority to the University President or designee to issue refunding bonds when the threshold provisions in Section 5.0 are met. (See Board of Regents Policy on Delegation of Authority (BOR2), Appendix 6.)

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3.0 Governing Principles (cont.)

- The University complies with all applicable laws, regulations, and bond covenants.
- Debt is a limited resource that is used to fund only capital projects that are consistent with the University's mission and strategic priorities, and its capital plan(s).
- The maturity and term of debt repayment is determined on:
  - The basis of expected availability of resources;
  - Other goals and obligations of the borrowing unit and the University;
  - Useful life of the assets being financed; and
  - Market conditions at the time of financing.
- The University establishes an internal compliance plan and engages in regular debt monitoring under that plan, to ensure compliance with this policy, bond resolutions, and other requirements.
- The University performs sensitivity analysis to evaluate varying cost and revenue drivers and discuss such analysis at the time of requesting additional debt and/or annual debt reporting to the Board of Regents. Such drivers include, but are not limited to, enrollment deviations, tuition and fee variations, state and federal appropriation changes, sponsored research anomalies all as compared to current year budget, while reflecting varying market assumptions.
- The University's overall debt status and outlook is reported to the Regents, at least annually, consistent with the requirements herein.

4.0 Debt Issuance Principles

- In general, new debt is secured by the general revenues of the University; but the University may secure debt by a specified revenue stream when legally and financially feasible for a specific project or purpose.
- The use of short-term credit facilities, such as a line of credit, shall only be used for bridging short-term operating liquidity cash flows. Draws on short-term credit facilities must include an identified source of repayment and follow the general reporting requirements in Section 7.0.
- For each project to be financed, the University identifies a source of repayment, sufficient in security and amount to support debt service over the life of the financing, as well as operating costs.
- The University seeks to maintain national credit ratings for general revenue bonds in the Aa/AA range and employs financial ratios consistent with major credit rating agency criteria to confirm that it is operating within parameters that support the desired credit rating.

- The University seeks to maintain a debt burden ratio below 7.5 percent, where debt burden is defined as the total annual debt service payment as a percentage of total operating costs.

4.0 Debt Issuance Principles (cont.)

- Financings are coordinated, to the extent practical, to minimize the fixed costs of debt issuance.
- In general, fixed rate debt is utilized, but the University may incur debt bearing interest at variable rates when appropriate for a particular financing plan, and taking into account 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 does not enter into any derivative transactions without first adopting a derivatives policy.

5.0 Refinancing and Refunding Principles

Refinancing of obligations may be considered:

- If it relieves the University of covenants, payment obligations, constraints, or reserve requirements that limit flexibility;
- To consolidate debt into a general revenue pledge and/or reduce the cost and administrative burden of managing many small outstanding obligations, after demonstration of the proposed benefits; or
- If the net present value ("NPV") savings to the University exceeds minimum thresholds, when measured as a percentage of the par amount of debt to be refinanced, and the refinancing supports the strategic need of the University.

Refunding Thresholds

If the refunding is being done for debt service savings, current refunding (i.e., refinancing completed up to 90 days prior to the first call date to final maturity for the obligations) may be considered when NPV savings are expected to meet the following thresholds:

- 1% for one to five years
- 3% for more than five years

If the refunding is being done for debt service savings, advance refunding (i.e., refinancing completed more than 90 days prior to the first call date for the obligations) may be considered when NPV savings are expected to meet the following thresholds:

- 3% for one to five years
- 5% for over five years

Refunding Thresholds (cont.)

The Board of Regents has delegated authority to the President or designee to issue refunding obligations when the refunding threshold provisions above are not met or exceeded. See Board of Regents Policy on Delegation of Authority (BOR2), Appendix 6.

6.0 Responsibilities

The Board of Regents is responsible for:

- Reviewing and approving any capital project to be considered for financing;
- Reviewing and authorizing each individual debt financing transaction, except for the issuance of refunding obligations as stated in Section 5.0,~~;~~ ~~and~~ or the renewal of existing short-term credit facilities, so long as the maximum borrowing amount does not exceed what has been previously authorized and any renewals of outstanding short-term credit facilities are in accordance with the authorizing resolution; and
- Approving this policy and any changes to this policy.

The Executive Vice President for Finance and Administration is responsible for:

- Implementing this policy;
- Establishing an internal compliance plan for all debt management and issuance;
- Retaining expert advisors as needed to assist with the issuance and administration of debt;
- Analyzing and presenting recommendations to the President and the Regents in connection with each proposed debt financing transaction, including:
  - Identification of source of repayment for each project, together with pro forma financial statements and assumptions relating thereto, and
  - Internal coverage requirements for each project and/or auxiliary providing repayment;
  - Issuing refunding obligations as set forth in Section 5.0;
- Overseeing management of daily activities relating to debt and debt issuance, including initiating draws from short-term credit facilities in accordance with the

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requirements in Section 7.0, and ~~including~~ coordination with legal and financial advisors to prepare and review the documents necessary for bond issuance and rating agency communication;

- Ensuring the University fulfills its continuing disclosure obligations, monitors compliance with bond covenants and IRS regulations, and invests unspent bond funds prudently; ~~and~~
- Fulfilling the reporting requirements of this policy; and~~.~~
- Renewing expiring short-term credit facilities

6.0 Responsibilities (cont.)

If at any time the Executive Vice President for Finance and Administration becomes aware of and substantiates concerns about project revenue streams or ability of a project or auxiliary to meet debt service or coverage requirements on outstanding or proposed debt, and/or the ability of the University to meet internal compliance targets or service outstanding or proposed debt, they must report such concerns at the next meeting of the Board of Regents, and must periodically report thereafter until the concerns have been fully addressed and resolved.

7.0 General Reporting Requirements

At least annually, the Executive Vice President for Finance and Administration provides a report to the Regents detailing:

- All outstanding debt (by series and auxiliary, where applicable);
- The amount of outstanding principal, interest rates, maturity dates, debt-service requirements, and changes in outstanding debt since the previous year's report;
- Key covenants and ratios as selected by the Executive Vice president for Finance and Administration or requested by the Board, such as:
  - Ratio of cash and investments to debt,
  - Ratio of debt service to operating expenses (University-wide), or
  - Debt service coverage (University-wide and by auxiliary);
- Comparative ratios (same as above) showing University comparison to the rating category medians and to peer institutions with the same or similar ratings;
- For any variable rate debt, including credit facilities, the status and remaining term of any letter of credit or similar liquidity source;
- For any derivatives, an overview of terms and the "mark-to-market" value;

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- Any known or anticipated new debt issuance; and
- Any restructuring or refinancing opportunities, including any completed refundings and related cost savings, if applicable.

Prior to drawing from any short-term credit facility, the Executive Vice President for Finance and Administration will consult with the President who will then advise the Chair of the Board of Regents and Chair of the Finance and Administration Committee of the Board of Regents, including on the purpose and total amount to be drawn, the cost of borrowing, and source and timeline for repayment.

- On or before the next regular meeting of the Board of Regents, the Executive Vice President for Finance and Administration will provide a written summary via information item of action taken to utilize the credit facility and will continue to provide written reports at each regular meeting until the draw balance is repaid.