IMPORTANT: To ensure accuracy, always use track-changes when editing this draft.

Washington State University
Board of Regents Policy Manual

Board of Regents Policy #5
Revision Approved by the Board of Regents, ~~January 30, 2015~~ <Date TBD> **DRAFT #3**

Board of Regents Debt Management Policy

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1.0 Purpose and Policy

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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 ~~will~~ 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

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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, 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, ~~whether or not~~ except when such obligations are reimbursable by the University.

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3.0 Governing Principles

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- No debt ~~will be~~ 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 of this policy are met. (See Board of Regents Policy on Delegation of Authority, Appendix 6).
- The University ~~will comply~~ complies with all applicable laws, regulations, and bond covenants.
- Debt is a limited resource that ~~will be~~ 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 ~~will be~~ is determined on the basis of expected availability of resources; other ~~long term~~ 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 ~~will~~ establishes an internal compliance plan and ~~will~~ engages in regular debt monitoring under that plan, to ensure compliance with this policy, bond resolutions, and other requirements.
- The University ~~will~~ 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 ~~will~~ 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 ~~will be~~ is reported to the Regents, at least annually, consistent with the requirements herein.

4.0 Debt Issuance Principles

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- In general, new debt ~~will be~~ 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.
- For each project to be financed, the University ~~will identify~~ 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 ~~will~~ seeks to maintain national credit ratings for general revenue bonds in the Aa/AA range and ~~will~~ employs financial ratios consistent with major credit rating agency criteria to confirm that it is operating within parameters that ~~will~~ support the desired credit rating.

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4.0 Debt Issuance Principles (cont.)

- The University ~~will~~ seeks to maintain a debt burden ratio below 7.5%, where debt burden is defined as the total annual debt service payment as a % of total operating costs.
- Financings ~~will be~~ are coordinated, to the extent practical, to minimize the fixed costs of debt issuance.
- In general, fixed rate debt ~~will be~~ 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 will not enter into any derivative transactions without first adopting a derivatives policy.

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5.0 Refinancing and Refunding Principles

Refinancing of obligations may be considered:

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- 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 ~~threshholds~~ 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, ~~C~~current refunding (i.e. refinancing completed up to 90 days prior to the first call date to final maturity for the ~~bonds~~ 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.

~~Years Between Call Date~~	~~Present Value Standard~~
~~1-2~~	~~1%~~
~~3-4~~	~~2%~~
~~5-6~~	~~3%~~
~~7+~~	~~4%~~

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5.0 Refinancing and Refunding Principles (cont.)

Refunding Thresholds (cont.)

- If the refunding is being done for debt service savings, ~~A~~advance refunding (i.e. refinancing completed more than 90 days prior to the first call date for the ~~bonds~~ 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.

~~Years Between Call Date and Final Maturity Date~~	~~Present Value Standard~~
~~1-2~~	~~1%~~
~~3-4~~	~~2%~~
~~5-6~~	~~3%~~
~~7-8~~	~~4%~~
~~9+~~	~~5%~~

The Board of Regents has delegated authority to the President or designee to issue refunding obligations when the refunding threshold provisions above are met or exceeded. See Board of Regents Policy on Delegation of Authority (BOR2), Appendix 6. The Executive Vice President for Finance and Administration is the President's designee for purposes of this delegation.

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
- Approving this policy and any changes to this policy.

The Executive Vice President ~~of~~ 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,~~;~~

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6.0 Responsibilities

The Executive Vice President ~~of~~ for Finance and Administration is responsible for (cont.):

- 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 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.

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, ~~he or she shall~~ they must report such concerns at the next meeting of the Board of Regents, and ~~shall~~ 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 ~~will~~ 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: ~~identified in the University's internal compliance plan, to include, at a minimum:~~

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  - Ratio of cash and investments to debt; ~~unrestricted net assets to debt (University-wide);~~
  - Ratio of debt service to operating expenses (University-wide);
  - 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, 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;
- Any known or anticipated new debt issuance; and
- Any restructuring or refinancing opportunities, including any completed refundings and related cost savings, if applicable..