# Debt Management Policy

**ROWAN UNIVERSITY POLICY**

**Title:** Debt Management Policy
**Subject:** Financial Management: Guidance for the Use and Management of Debt
**Policy No:** FIN: 2008:01
**Applies:** University-Wide
**Issuing Authority:** President
**Responsible Officer:** Senior VP for Finance and CFO
**Adopted:** *6/4/2008*
**Last Revision:** *10/25/2021*
**Last Reviewed:** *10/25/2021*

## I. PURPOSE

This Debt Policy serves to articulate Rowan University's philosophy regarding debt and to establish a framework to help guide decisions regarding the use and management of debt. As the University establishes institutional priorities through its strategic planning processes, including its 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 an appropriate mix of funding sources are utilized, that the University's debt capacity is allocated strategically, and that Rowan University's debt levels and types of debt are appropriate and responsible, given the University's financial strength and risk tolerance levels.

## II. ACCOUNTABILITY

Under the direction of the President, the Senior VP for Finance and CFO shall ensure compliance and implementation of this policy.

## III. APPLICABILITY

This policy applies to all that are involved with the Debt Issuance and Management process.

## IV. DEFINITIONS

1. Primary Reserve Ratio = Expendable Net Assets/Total Expenses – This ratio provides a snapshot of financial strength and flexibility. A positive ratio or increasing trend over time may indicate increasing strength in financial condition.
2. Viability Ratio = Expendable Net Assets/Long Term Debt – This ratio measures the availability of expendable net assets 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 Assets Ratio = Change in Net Assets/Total Assets –This ratio measures total economic return and can be used to indicate whether the University is financially better or worse over time.
4. Net Income Ratio = Change in Unrestricted Net Assets/Total Unrestricted Revenue – This ratio measures success of financial operations for a given year.
5. Actual Debt Service to Operations = Debt Service/Total Operating Expenses - Measures the ability to pay debt service associated with all outstanding debt and the impact on the overall budget.

   a. These ratios exclude the impact of GASB 68

## V. POLICY

1. Debt is a valuable source of capital project financing, and its use should be limited to projects that relate to the mission and strategic objectives of the University.
2. The amount of debt incurred impacts the financial health of the University and its credit rating. The University will consider other funding opportunities (e.g., joint ventures, real estate development, public private partnerships, grants, etc.) when appropriate and advantageous to the University.
3. Opportunities and financing sources will be evaluated within the context of the Debt Policy.

## VI. OBJECTIVES

1. The broad objectives stated below provide the framework by which decisions will be made regarding the use and management of debt. This Debt Policy is set forth to:
   a. Strategically use the University's credit to fund mission critical projects that have been approved by the Board of Trustees;
   b. Manage the University's credit to maintain the highest acceptable credit rating that will permit the University to continue to issue debt at favorable rates;
   c. Optimize the debt portfolio as a whole, while also optimizing transactional and project-specific debt using an appropriate mix of fixed and variable rate debt to achieve the lowest cost of capital while limiting exposure to market interest rate shifts; and
   d. Assign responsibilities for the implementation and management of the University's Debt Policy.

## VII. RESPONSIBILITIES

1. The Board of Trustees will review and consider for approval the annual capital project plan as well as each individual debt financing transaction.
2. The President and Senior Vice President for Finance are directly responsible for capital debt issuance and debt management.
3. Facilities will take the lead role in estimating and defining project costs and obtaining Board of Trustee approval of the projects before debt issuances are constructed.
4. Accounting Services will coordinate with Capital Construction and Facilities to oversee the capital budgeting and funding plans for major projects financed with debt.
5. The Senior Vice President for Finance's office will work with Accounting, Bond Counsel, Legal, Financial Advisors and others to help prepare and review the documents necessary for bond issuance and rating agency reviews and visits.
6. Accounting Services will maintain a schedule of current and forecasted debt and associated payment of principal, interest, and fees. They will provide debt service budgets in the annual budget process and individually to all campus units which are assessed debt service. The Director of Accounting is responsible for the accounting, reporting and other disclosures, monitoring compliance with covenants, and arbitrage calculations associated with existing debt issues.

## VIII. ATTACHMENTS

1. Attachment 1 – Debt Management Procedures and Guidelines

## Attachment 1
## Debt Management Procedures and Guidelines

Consideration is given to purpose, affordability, risk management, and financial structure management in developing a framework for debt utilization and management. Generally, the following guidelines will be used, although they are not intended to be all-inclusive. Judgment by management and the Board of Trustees ultimately will determine the use and amount of debt.

1. Only projects that further the mission and strategic goals of the University, either directly or indirectly will be considered for debt financing. The structure of any individual transaction will be based upon overall needs to ensure that the long term costs are minimized and that overall risk does not exceed acceptable levels.
2. To the extent possible, State funding, gifts, grants, and internal reserves will be used to fund capital projects. Debt represents a valuable resource and will be used conservatively and strategically.
3. Bond financing will be coordinated to the extent possible so that multiple projects can be accommodated in a single borrowing to reduce overall issuance costs per dollar of debt issued.
4. The University will limit its overall debt to a level that, when viewed in the context of its current and future strategic objectives, is intended to optimize creditworthiness over the long term. In considering debt capacity and affordability, the University will monitor its financial condition and performance through review of (i) appropriate financial ratios (ii) public ratings; (iii) the merits and feasibility of projects being financed; and (iv) other relevant industry data such as comparison to other higher education institutions. The amount of debt that the University has at any given time will be a function of its ability to service that debt through the operating budget without diminishing the resources necessary for other non-capital priorities while sustaining overall financial health.
5. The University will seek the lowest cost source of financing when issuing debt, considered concurrently with the associated risk. It will consider the costs and benefits associated with different types of financing and liquidity options.
6. The use of and portfolio allocation to variable rate debt will be determined by the Board of Trustees. The allocation to variable rate debt may be managed or adjusted through the issuance of new debt or refunding and through the use of interest rate swaps and other derivative products such as caps and collars (See Finance policy 2018-02 “Derivative Management Policy”.
   The University will analyze costs and benefits of any derivative instrument relative to achieving its long-term capital structure objectives and will consider risk mitigation features. Under no circumstances will a derivative transaction be utilized that is not understood fully by management and the Board or that imposes inappropriate risk on the University. Certain risks to be considered include, but are not limited to, tax risk, interest rate risk, liquidity risk, counterparty risk, basis risk, and any other potential risk.
7. Annual debt interest and principal amortization payments will be provided for in the annual operating budget or in specific designated or restricted funds. Variable-rate interest will be budgeted conservatively at fixed rate levels adjusted annually.
8. The University will interact with credit rating agencies and will strive to maintain the highest acceptable credit rating.
9. The University will monitor and consider current or advanced refunding opportunities of outstanding debt when the net present value savings are positive, there is at least a 3% or greater NPV savings and the refunding will support the strategic need of the University. A refunding will also be considered if it relieves the University of certain limitations, covenants, payment obligations, or reserve requirements that reduce flexibility. The University will also consider refinancing certain obligations within a new money offering even if savings levels are minimal in order to consolidate debt into a general revenue pledge and/or reduce the administrative burden and cost of managing many small outstanding obligations.
10. New issues should have as few restrictions, covenants or restrictions as possible to allow flexibility in allocating resources.

## DEBT RATIOS, PROJECT CONSIDERATION GUIDELINES, AND ONGOING REVIEW OF DEBT AND FINANCIAL PERFORMANCE

1. The following financial ratios, when considered together and over time, will help to provide a clear, high level assessment of the overall financial health of the University.

   a. Primary Reserve Ratio
   b. Viability Ratio
   c. Return on Net Assets Ratio
   d. Net Income Ratio
   e. Actual Debt Service to Operations
2. Taken together, and in consideration of other indicators, the above ratios can represent a composite financial index which may be used to provide an overall financial measurement of the University.
3. The University recognizes that the financial ratios noted above, and other industry measures of creditworthiness and sound financial management may change over time.
4. The University will periodically review its debt policy to insure consideration is given to current higher education industry practices and standards.
5. Every project considered for financing must have a defined, supportable plan of costs (both construction and operating) approved by management. Associated revenues and cost savings should be estimated conservatively. Determination of the prioritization of individual projects to be allocated a portion of available debt capacity is a separate, internal decision that must be made before a project is initiated.
6. The University will monitor its debt and review financial performance on an ongoing basis. Periodic reports to the Budget and Finance Committee will be provided summarizing the University's outstanding (and proposed if applicable) debt and financial condition as indicated by appropriate industry measures, including financial performance, public debt ratings and other relevant data.