RUTGERS
THE STATE UNIVERSITY OF NEW JERSEY

UNIVERSITY POLICY

Policy Name:	Debt Management Policy				
Section #:	40.2.21	**Section Title:**	Fiscal Management	**Formerly Book:**	
Approval Authority:	Board of Governors	**Adopted:**	6/15/2006 (housed on Office of Institutional Research website)	**Reviewed:**	
Responsible Executive:	Executive Vice President for Finance and Administration and University Treasurer	**Revised:**	2/8/2017 (rewritten and converted to University Policy)		
Responsible Office:	Office of Treasury Operations	**Contact:**	Director of Debt Management: 848-445-1159		

1. **Policy Statement**

In order to fulfill its mission, the University's policy is to use debt as a resource to provide funding for its capital program. Since debt is a limited resource, the University's policy is to manage this resource in a manner that is consistent with the Strategic Plans, ensures access to capital markets and preserves and enhances the long-term financial health of the University.

2. **Reason for Policy**

The Board of Governors, with the advice and consent of the Board of Trustees, has the authority to approve the issuance of debt. This policy provides general guidelines for University management to use in developing debt recommendations to the Board of Governors. The policy also provides metrics and reports that will enable the Board of Governors to exercise its oversight responsibilities. The policy provides for delegation of certain functions required for the issuance and management of debt to the Executive Vice President for Finance and Administration and University Treasurer.

3. **Who Should Read this Policy**

University administrators including, but not limited to Chancellors, Vice Presidents, Deans, Directors and Department Chairs and Business Administrators.

4. **Resources**

Policy 40.2.20, Internal Bank Capital Project Financing Program:
http://policies.rutgers.edu/sites/policies/files/00001378.PDF

Post Issuance Tax Compliance Policy
http://uco.rutgers.edu/tax-services

5. **The Policy**

The University's policy is to use debt as a financing tool to advance the University's mission and to provide funding for the capital program. The use of debt should be aligned with strategic and financial planning and priorities.

The following factors, among others, shall be considered in the use of debt:

1. The University's interest in maintaining favorable, timely and affordable access to capital markets;
2. Prioritization of capital projects consistent with the University's Strategic Plans and Master Plans;
3. Other sources of funding including philanthropy, reserves, State funds and public-private partnerships;
4. Impact on the University's bond ratings;
5. Impact on the University's financial health in the short and long-term

In managing the debt portfolio, the University's policy is to:

1. Provide affordable capital project funding through the University's Internal Bank by taking a portfolio approach rather than a transactional or project-specific approach;
2. Monitor potential risk exposures across such elements as interest rates (fixed versus variable), maturities, tax status, use of derivative products, financial services providers, among others;
3. Take advantage of opportunities to refinance outstanding debt to realize debt service savings;
4. Maintain compliance with post-issuance requirements including tax-exempt bond regulations and continuing disclosure obligations.

A. **Roles**

1. The Board of Governors, with the advice and consent of the Board of Trustees, has the authority to approve debt issuance. The following actions require Board of Governors approval after consideration of recommendations from the Executive Vice President for Finance and Administration and University Treasurer:
    a. Debt issuance including financing for capital projects and refinancing of outstanding debt;
    b. Commercial paper program size;
    c. Other obligations of the University including, but not limited to, bank facilities that support the commercial paper program and derivative products
2. The Executive Vice President for Finance and Administration and University Treasurer has the following responsibilities:

a. Consistent with the terms of Board of Governors approval resolutions for each specific debt issue, issuing debt in a manner and form that is consistent with this policy;
b. Managing the debt portfolio in manner consistent with the policy;

c. Issuing Commercial Paper within the program size approved by the Board of Governors;

d. Maintenance of bank facilities including renewal of facilities and/or replacement of providers;

e. Selection of financing professionals including bond underwriters, bond counsel, financial advisor, and trustees;

f. Annual review of this policy and providing the Board of Governors with an annual report on the University's debt portfolio.

3. The Executive Vice President for Finance and Administration and University Treasurer may delegate these responsibilities and related actions to the Vice President for Finance and Associate Treasurer.

B. **Debt Financing Instruments and Structures**

1. The University shall consider the following financing instruments, among others, for debt issuances:

   a. Tax-exempt bonds;
   b. Taxable bonds;
   c. Fixed rate bonds;
   d. Variable rate bonds;
   e. Serial and term bonds;
   f. Bullet bonds;
   g. Commercial paper;
   h. Callable bonds;
   i. Non-callable bonds;
   j. Derivative products consistent with the provisions of section D;
   k. Other financing instruments presented by financial service providers for consideration at the time of issuance.

2. The University's primary financing structure is general obligation bonds. The University may consider other forms of debt such as lease financings, third party financings and public-private partnerships, among others, to undertake certain capital projects.

C. **Debt Capacity and Affordability**

Debt capacity and debt affordability can be estimated by comparing University metrics to bond rating category medians and institutions with similar credit ratings.

While these metrics are useful in making estimates of debt capacity and debt affordability, the use of debt is also a function of the University's Strategic Plans and the need to make investments in the University's future. As a result, the metrics are intended to be used as guidelines that will enable the Board of Governors and University management to weigh a wide range of factors in making decisions about debt issuance including availability of University and other resources, the ability to raise funds for projects, the capital project prioritization process, external bond ratings, leverage, affordability, and risk metrics.

1. **Debt Capacity Metrics**

   a. Spendable Cash and Investments to Debt: This metric measures the ability to repay debt from wealth that can be accessed over time.

Formula	FY15	FY16	Target Range
Spendable Cash & Investments ÷ Long Term Debt	0.70x	0.73x	0.5x – 1.5x

   b. Debt to Revenue: Measures overall University income statement leverage

Formula	FY15	FY16	Target Range
Long-Term Debt ÷ Operating Revenue	0.58x	0.55x	0.5x – 1.0x

2. **Debt Affordability Metrics**

   a. Debt Service to Operating Expenses: Measures debt service burden on budget

Formula	FY15	FY16	Target Range
Debt Service ÷ Operating Expense	3.97%	4.05%	3.5% – 6.0%

   b. Debt Service Coverage: Measures ability to cover debt service payments from annual operations

Formula	FY15	FY16	Target Range
Operating Cash Flow ÷ Debt Service	2.38x	2.39x	1.5x – 3.5x

These metrics are defined by Moody's Investors Service.

D. **Derivative Products**

1. Derivative Products are financial agreements that may be used to manage risk in the debt portfolio. These products include interest rate swaps, interest rate caps and other forms of hedging interest rate exposure.

2. Derivative Products may not be used for speculation or in a manner that presents unacceptable risk to the University and may be used only after the University receives independent legal and financial advice concerning the products.

3. Risk Factors: The following risk factors, among others, are to be considered in evaluating the use of derivative products:

   a. Counterparty Risk: Counterparty risk is the risk that a counterparty fails to meet its obligations as described in the contract. The University will seek to mitigate this risk by evaluating the credit quality of any counterparty and diversifying its counterparty exposure among different financial institutions;

b. Termination Risk: Termination risk is the risk that an event of default or credit rating downgrade below a set threshold triggers a termination event and a termination payment;

c. Collateralization Risk: Collateralization risk is the risk that the University may be required to post collateral under certain circumstances to secure a negative mark-to-market;

d. Basis Risk: Basis risk is the risk that a variable payment received on interest rate swaps will not match the variable payment on the bonds or commercial paper.

E. **Compliance and Reporting**

1. Continuing Disclosure Compliance: The University will comply with all legal and contractual requirements for ongoing continuing disclosure related to the debt portfolio, including disclosure requirements under applicable SEC or MSRB rules and regulations contained in applicable continuing disclosure undertaking.

2. Tax-Exempt Bond Compliance: The University will comply with all legal and contractual requirements for the use and maintenance of bond-financed capital projects, including IRS regulations related to tax-exempt bond-financed projects.

3. Reporting: The Executive Vice President for Finance and Administration and University Treasurer will prepare annually a report on the debt portfolio and updates of debt capacity and affordability metrics for review by the Board of Governors.