

## UNIVERSITY POLICY

<b>Policy Name:</b>	Policy Governing Century Bonds				
<b>Section #:</b>	40.2.23	<b>Section Title:</b>	Fiscal Management	<b>Formerly Book:</b>	N/A
<b>Approval Authority:</b>	Board of Governors Board of Trustees	<b>Adopted:</b>	10/2/2019	<b>Reviewed:</b>	
<b>Responsible Executive:</b>	Executive Vice President for Finance and Administration and University Treasurer	<b>Revised:</b>			
<b>Responsible Office:</b>	University Finance & Administration	<b>Contact:</b>	Treasury Operations 848-445-3500 <a href="mailto:treasury@finance.rutgers.edu">treasury@finance.rutgers.edu</a>		

### 1. Policy Statement

This policy documents Rutgers University's Century Bond strategy to ensure the proper use of proceeds and the University's ability to repay the principal balance due after one hundred years. It is additionally intended to ensure that senior management and governance bodies remain actively involved with both the Century Bond and related Internal Bank strategies

### 2. Reason for Policy

To assist future generations of University leadership in the management of Century Bonds issued within the context of the Internal Bank policies and procedures.

### 3. Who Should Read This Policy

- Finance and Administration leadership
- Treasury staff responsible for the management of debt and the Internal Bank

### 4. Resources

[University Policy 40.2.20: Internal Bank Capital Project Financing Program \("Internal Bank Policy"\)](#)

### 5. Definitions

N/A

### 6. The Policy

#### A. Introduction

Rutgers' first Century Bond, Series 2019P, was issued in calendar year 2019 for the following purposes:

1. To capitalize the Internal Bank to fund new capital projects and deferred maintenance on both an immediate and ongoing basis through the recycling of Internal Bank loans, thus reducing the University's reliance on external borrowing in the future;

2. To convert \$100M of outstanding Commercial Paper utilized to fund capital construction expenses into long-term fixed-rate debt to be included as a permanent part of the University's capital structure.

Any future Century Bonds should be similarly contemplated within the context of the University's Internal Bank operations, long-term capital plan, and overall capital structure.

## **B. Responsibilities**

1. The Executive Vice President for Finance and Administration and University Treasurer is responsible for the overall implementation of this policy and may delegate some or all of the responsibilities.
2. The Office of Debt Management and Capital Finance within University Treasury is responsible for:
  - a. Tracking the usage of bond proceeds;
  - b. Ensuring the Century Bond Repayment Fund ("The Fund") is adequately funded;
  - c. Creating reports for senior management and the Board of Governors;

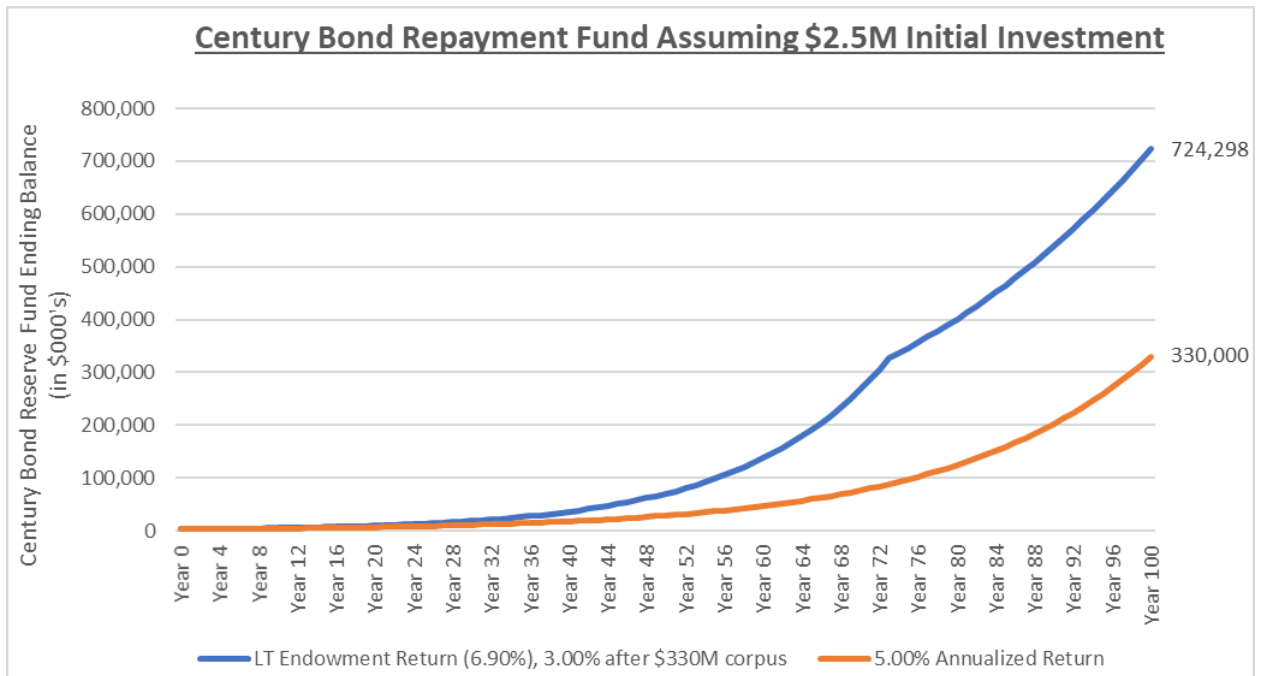
## **C. Century Bond Repayment Fund ("The Fund")**

For each Century Bonds issued, the Internal Bank will establish an internally designated fund within the University's Long-Term Investment Pool ("LTIP") to ensure repayment of outstanding principal at maturity with minimal financial impact to the University and future stakeholders. For example, when the 2019P Century Bond was issued, \$2.5M of current Internal Bank equity was invested into The Fund upon closing. Internal Bank equity is defined as the Bank's current unrestricted ending balance, accumulated through the interest rate spread earned on internal lending activity. Assuming a conservative compounded annualized return of 5%, this initial investment will result in approximately \$330M of proceeds in 2119 (see appendix A for the complete reinvestment return schedule). All such deposits associated with future Century Bond borrowings will be funded similarly from Internal Bank equity. As such, no debt service will be owed on these amounts.

No principal or earnings will be removed from The Fund until the full principal amount is accumulated, at which point the full principal will be moved to a separately managed account ("SMA") within the LTIP and invested in risk-free securities such as U.S. government bonds, with a maturity not to exceed the century bond maturity date. Assuming a long-term annual compounded return of 6.9% - the long-term investment return assumption used by the University at the time of this policy's development - the initial deposit for the 2019P Bond would generate \$330M by approximately year 75. Income earned in the SMA will be contributed to the Internal Bank each year and utilized for capital financing purposes.

In accordance with the Internal Bank Policy, University administration will report annually on the performance of The Fund against the 5% compounded annualized return as specified in Appendix A. Similar schedules should be developed for future financings related to this policy. In the event that The Fund balance is below the annual benchmark as specified in Appendix A, University leadership may decide whether to transfer additional funds from the current Internal Bank balance to meet to its Benchmark assumption

The below chart shows the estimated Fund balance for the 2019P Century Bond based on the two alternate scenarios: The baseline 5% return versus the expected 6.9% LTIP return until \$330M of principal balance is achieved and then a 3% risk-free return thereafter.



**D. Senior Management and Governance Oversight**

Senior management and the Board of Governors' Committee on Finance and Facilities (or its successor, if applicable) will be apprised at least annually on the financial health of the Internal Bank with specific reporting on The Fund in accordance with its Internal Bank Policy and Procedures. If additional century bond issuances occur, the administration will update the analysis to ensure funding of the required principal repayment at maturity.

## Appendix A: Century Bond Repayment Fund Investment Schedule (Years 1-40)

	LT Endowment Return (6.90%), 3.00% after \$330M corpus	5.00% Annualized Return	Excess Return (LT Return - Blended Rate Return)
Year 0	2,500	2,500	
Year 1	2,673	2,625	47
Year 2	2,857	2,756	100
Year 3	3,054	2,894	160
Year 4	3,265	3,039	226
Year 5	3,490	3,191	299
Year 6	3,731	3,351	380
Year 7	3,988	3,519	470
Year 8	4,263	3,695	569
Year 9	4,558	3,880	678
Year 10	4,872	4,074	798
Year 11	5,208	4,278	931
Year 12	5,568	4,492	1,076
Year 13	5,952	4,716	1,235
Year 14	6,363	4,952	1,410
Year 15	6,802	5,200	1,601
Year 16	7,271	5,460	1,810
Year 17	7,773	5,734	2,039
Year 18	8,309	6,021	2,288
Year 19	8,882	6,322	2,560
Year 20	9,495	6,638	2,857
Year 21	10,150	6,970	3,180
Year 22	10,850	7,319	3,531
Year 23	11,599	7,685	3,914
Year 24	12,400	8,070	4,329
Year 25	13,255	8,474	4,781
Year 26	14,170	8,898	5,272
Year 27	15,147	9,343	5,804
Year 28	16,193	9,811	6,382
Year 29	17,310	10,302	7,008
Year 30	18,504	10,817	7,687
Year 31	19,781	11,358	8,423
Year 32	21,146	11,927	9,219
Year 33	22,605	12,524	10,081
Year 34	24,165	13,150	11,014
Year 35	25,832	13,808	12,024
Year 36	27,615	14,499	13,115
Year 37	29,520	15,225	14,295
Year 38	31,557	15,987	15,570
Year 39	33,734	16,787	16,948
Year 40	36,062	17,627	18,435

All policies are subject to amendment. Please refer to the Rutgers University Policy Library website ([policies.rutgers.edu](http://policies.rutgers.edu)) for the official, most recent version.

**Appendix A Continued: Century Bond Repayment Fund Investment Schedule (Years 41-80)**

	LT Endowment Return (6.90%), 3.00% after \$330M corpus	5.00% Annualized Return	Excess Return (LT Return - Blended Rate Return)
Year 41	38,550	18,509	20,041
Year 42	41,210	19,435	21,775
Year 43	44,054	20,407	23,646
Year 44	47,093	21,429	25,665
Year 45	50,343	22,501	27,842
Year 46	53,816	23,627	30,190
Year 47	57,530	24,809	32,721
Year 48	61,499	26,050	35,449
Year 49	65,743	27,354	38,389
Year 50	70,279	28,723	41,556
Year 51	75,128	30,160	44,968
Year 52	80,312	31,669	48,643
Year 53	85,854	33,254	52,600
Year 54	91,777	34,918	56,859
Year 55	98,110	36,665	61,445
Year 56	104,880	38,500	66,380
Year 57	112,116	40,427	71,690
Year 58	119,852	42,450	77,403
Year 59	128,122	44,574	83,549
Year 60	136,963	46,804	90,159
Year 61	146,413	49,146	97,267
Year 62	156,516	51,605	104,910
Year 63	167,315	54,188	113,127
Year 64	178,860	56,899	121,961
Year 65	191,201	59,747	131,455
Year 66	204,394	62,736	141,658
Year 67	218,497	65,876	152,622
Year 68	233,574	69,172	164,402
Year 69	249,690	72,633	177,057
Year 70	266,919	76,268	190,651
Year 71	285,336	80,084	205,252
Year 72	305,025	84,092	220,933
Year 73	326,071	88,300	237,772
Year 74	335,853	92,718	243,135
Year 75	345,929	97,358	248,571
Year 76	356,307	102,229	254,077
Year 77	366,996	107,345	259,651
Year 78	378,006	112,717	265,289
Year 79	389,346	118,357	270,989
Year 80	401,026	124,279	276,747

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**Appendix A Continued: Century Bond Repayment Fund Investment Schedule (Years 81-100)**

	LT Endowment Return (6.90%), 3.00% after \$330M corpus	5.00% Annualized Return	Excess Return (LT Return - Blended Rate Return)
Year 81	413,057	130,498	282,559
Year 82	425,449	137,028	288,421
Year 83	438,212	143,885	294,327
Year 84	451,359	151,085	300,274
Year 85	464,900	158,646	306,254
Year 86	478,847	166,584	312,262
Year 87	493,212	174,920	318,292
Year 88	508,008	183,673	324,335
Year 89	523,249	192,864	330,385
Year 90	538,946	202,515	336,431
Year 91	555,114	212,648	342,466
Year 92	571,768	223,289	348,479
Year 93	588,921	234,463	354,458
Year 94	606,589	246,195	360,393
Year 95	624,786	258,515	366,272
Year 96	643,530	271,451	372,079
Year 97	662,836	285,034	377,802
Year 98	682,721	299,297	383,424
Year 99	703,202	314,274	388,929
Year 100	724,298	330,000	394,298