

TUSKEGEE UNIVERSITY

University Policy: DEBT MANAGEMENT POLICY

Policy Category: Business and Fiscal Affairs

Subject: Debt Management

Office Responsible for Review of this Policy: Business and Fiscal Affairs

I. SCOPE

This debt management policy outlines the general philosophy for incurring and use of debt by Tuskegee University and introduces specific procedures and guidelines to assess overall debt capacity and debt affordability. As a guiding principle, Tuskegee University will monitor its debt and review financial performance on an on-going long term basis. This total balance sheet management approach will be a critical component in helping the University, achieve its strategic objectives regarding capital purposes, maintain operations regarding its liquidity needs, consistent with its risk tolerance, and achieve the lowest cost of borrowing while continuing to invest in the facilities of the University.

As the University evaluates future capital projects and operating budgets, the goals and principles outlined in this Debt Management Policy will be reflected in those decisions.

II. POLICY STATEMENT

Debt can be 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. The University will consider other funding opportunities (e.g., joint ventures, real estate development, grants, etc.) when appropriate and advantageous to the University. Opportunities and financing sources will be evaluated within the context of the Debt Management Policy.

III. PURPOSE

The purpose of this policy is to articulate to Tuskegee University's philosophy regarding debt and to establish a framework to help guide decisions regarding the incurring use and management of debt.

IV. TO WHOM THIS POLICY APPLIES

This policy applies to all organizational units within the University.

V. EFFECTIVE DATE

This policy is effective immediately.

VI. SIGNATURE, DATE, AND APPROVAL

Approved:



Brian L. Johnson, Ph.D.
President

Date Approved: *This policy was approved unanimously by the Board of Trustees at the Annual Board of Trustees meeting held on October 17, 2015.*

TUSKEGEE UNIVERSITY DEBT MANAGEMENT POLICY

I. PURPOSE AND PHILOSOPHY

This policy articulates Tuskegee University's philosophy regarding debt and to establish a framework to help guide decisions regarding the incurring use and management of debt. As the University establishes institutional priorities through its comprehensive strategic planning processes, including its campus master planning, the University will consider utilizing an appropriate mix of financing and funding sources, including 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 Tuskegee University's debt levels and types of debt are appropriate and responsible, given the University's financial strength and risk tolerance levels.

II. POLICY STATEMENT

Debt can be 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. The University will consider other funding opportunities (e.g., joint ventures, real estate development, grants, etc.) when appropriate and advantageous to the University. Opportunities and financing sources will be evaluated within the context of the Debt Management Policy.

III. OBJECTIVES

The broad objectives stated below provide the framework by which decisions will be made regarding the incurring use and management of debt. The Debt Management Policy and objectives are subject to periodic re-evaluation. This Debt Management Policy is set forth to:

1. Strategically use the University's available credit to fund only mission critical capital and plant projects.
2. Manage the University's credit to achieve the highest acceptable credit rating that will permit the University to continue to issue debt at favorable rates. Use of key financial ratios provides management and the Board of Trustees with feedback and assurances the University is not exceeding its desired use of credit capacity.
3. 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.

4. Assign responsibilities for the implementation and management of the University's Debt Management Policy.

IV. 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 will be considered for debt financing.
2. To the extent possible, gifts, grants, and internal reserves (unrestricted net assets) will be used to fund capital projects.
3. 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.
5. In considering debt capacity and affordability, the University will monitor its financial condition and performance through review of: appropriate financial ratios, the merits and feasibility of projects being financed, and other relevant industry data such as comparison to other higher education institutions.
6. 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.
7. The portfolio allocation to variable rate debt will have an appropriate relationship to short-term liquid assets and will not exceed fifty percent (50%) of the debt portfolio. 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 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.
8. 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.

9. The University will monitor and consider current or advanced refunding opportunities of outstanding debt when the net present value savings are positive, 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. The University will invest bond proceeds appropriately to achieve the highest return available under arbitrage limitations. The University will comply with arbitrage requirements on any invested bond funds.
11. Restrictions and covenants in existing bond indentures and loan agreements will be observed when considering additional financing.
12. The University will seek appropriate legal counsel before entering into any new debt arrangements.

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

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.

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.

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.

The University recognizes the financial ratios noted above, and other industry measures of creditworthiness and sound financial management may change over time. The University will periodically review its debt policy to insure consideration is given to current higher education industry practices and standards.

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.

The University will monitor its debt and review financial performance on an ongoing basis. A report will be provided to the Board of Trustees at each regular board meeting summarizing the University's outstanding (and proposed, if applicable,) debt and financial condition as indicated by appropriate industry measures, including financial ratios, public debt ratings and other relevant data.

VI. ASSIGNMENT OF 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. Additionally, the Board of Trustees will review and approve the implementation of this Debt Management Policy and will approve any significant future changes.
2. The President and the Vice President for Business and Fiscal Affairs/Chief Financial Officer (CFO) are directly responsible for capital debt issuance and debt management.
3. The Vice-President for Capital Projects and Facilities Management Division 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. He/she will work with the President and the Vice President for Business and Fiscal Affairs/CFO to explore the most advantageous funding plan for individual projects.
4. The Vice President for Business and Fiscal Affairs/CFO will coordinate with the Capital Projects and Facilities Planning Division to oversee the capital budgeting and funding plans for major projects. Management will work with bond counsel, underwriters, financial advisors, and others to help prepare and review the documents necessary for bond issuance.
5. The Business and Fiscal Affairs Division will maintain a schedule of current and forecasted debt and associated payment of principal, interest, and fees. The Business and Fiscal Affairs Division will provide debt service budgets in the annual budget process.

The Business and Fiscal Affairs Division is responsible for the accounting, reporting and other disclosures, monitoring compliance with covenants, and arbitrage calculations associated with existing debt issues.

6. The Business and Fiscal Affairs Division will invest unspent bond funds according to University investment policies to achieve the highest return available under arbitrage limitations.

APPROVED: _____ 2015