



**BOT Policy No. 11.1**

**Responsible Division:** Board of Trustees

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**Debt Policy**

***Policy Statement***

The University intends to maintain a credit worthiness that ensures adequate funding for capital projects and provides ready access to the public debt and bank markets at attractive rates relative to market conditions then existing. Investment grade and higher credit ratings provide debt market access at lower interest rates but may also limit the amount of debt to be issued.

To fulfill its mission, the University must make ongoing strategic capital investments in academic, student life, and other plant facilities using an appropriate mix of funding sources including philanthropy, debt, capital leases and internal reserves.

The purpose of the Debt Policy is to provide guidance on the strategic use of debt and to ensure the appropriate mix of funding sources are considered and utilized. To fulfill their respective fiduciary responsibilities, it is critical that the Board of Trustees and management know the extent of debt obligations. Debt is defined to include all short- and long-term obligations, guarantees, and instruments that have the effect of committing the University to future payments.

Debt is a valuable source of capital project financing but should be limited to projects that relate to the mission and strategic objectives of the University.

The amount of debt incurred has an impact on the financial health of the University and its credit rating, and its ability to allocate resources to other mission critical activities. A goal of this policy is to ensure access to debt capital to support the University's capital and cash flow needs.

The Board of Trustees must authorize any new debt issuance, and sets policy regarding debt. The assumption of debt, both direct and indirect, will be subject to Trustees' approval. Any debt issued by subsidiary entities is subject to these policies.

The Board delegates authority to implement the policy to the Vice President for Finance and Administration/Chief Financial Officer with primary oversight through the Finance Committee of the Board. This Policy provides a discipline and framework to be used by senior administration to evaluate the appropriate use of debt in capital planning.

The University reserves the right to modify or amend this Policy at any time, at its sole discretion. Any change to this Policy will become effective at the time designated above, and the changes will apply to both prospective students and those already enrolled. This Policy does not constitute an express or implied contract between Roosevelt University and any past, present, or prospective student, employee (including administrator, faculty, or staff), contractor, or volunteer. Unless otherwise stated, the term “Employee” as used in this Policy shall refer to all employees (including administrators, faculty, and staff), contractors, and volunteers.

### ***Policy***

All debt financing shall conform to Federal laws, the authority granted by its Board of Trustees, and conducted to promote the best interests of the University.

In addition, the Vice President of Finance and Administration/Chief Financial Officer shall provide: (i) on a quarterly basis, an update to the Finance Committee of the Board of Trustees; and (ii) on an annual basis, a presentation to the Board of Trustees regarding debt issued, debt outstanding, and the University’s estimated debt capacity, credit ratings, and ratios.

An Employee who violates this Policy will be subject to disciplinary action, up to and including termination.

### **Objectives of the Debt Policy**

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The objectives stated below provide the framework for decisions regarding the use and management of external debt. The Debt Policy and objectives are subject to ongoing evaluation and may change over time.

1. To provide cost-effective funding for acquiring or replacing long-lived capital assets;
2. To match the cost of funding with the benefits received over the useful life of capital improvements and prioritize those with net benefits;
3. To leverage other capital funding sources, such as matching governmental and private funding;
4. To meet short-term operating cash flow needs, or bridging construction periods to permanent financing, but only on a limited basis;
5. To manage selected financial ratios within specific targets using Key Financial Indicators described below. Use of and managing to key financial ratios provides Administration and the Trustees with feedback and assurances that the University is not exceeding its desired use of credit capacity and can comfortably manage its repayment obligations. Management will regularly update the Key Financial Indicators to provide the Trustees with an overview of the financial health of the institution and its self-imposed debt capacity.

## **Financing Objectives**

The University recognizes that debt as a source of capital is limited. The University will make decisions relative to the use of debt as it considers each capital project in the context of the University's mission. The financing objectives below, combined with the judgment of the CFO and Trustees provide a framework for decisions regarding the use and management of debt.

- A. Identify eligible projects for debt financing. Restricting debt to projects that are critical to the mission of the University will ensure that debt capacity is optimally utilized. Projects that relate to the strategic objectives of the University and projects, which are self-funding with associated revenues, will receive priority consideration.
- B. The University will evaluate the funding sources (including but not limited to cash reserves, philanthropy, self-funding, and debt funding).
- C. Maintain favorable access to capital. Management will manage the timing and overall level of debt to ensure low-cost and timely access to the capital markets.
- D. Limit risk within the debt portfolio. Management will balance the goal of achieving the lowest cost of capital with the goal of limiting exposure to interest rate risk and other financing and credit risks.
- E. Manage credit to maintain the highest possible credit rating. Maintaining the highest possible credit rating will facilitate the issuance of debt at favorable cost. Outstanding debt will be limited to a level that will maintain acceptable credit ratings from the credit rating agencies. While maintaining or attaining a specific credit rating is not an objective of this Policy, the Finance Committee of the Board of Trustees will monitor the University's credit ratings and assess factors that might affect those ratings.
- F. The University, in the context of this Policy, will consider other funding arrangements when appropriate and advantageous to the University.

## **Debt Capacity and Affordability**

There are multiple factors affecting overall institutional debt capacity and debt affordability. Debt capacity considers the University's ability to leverage its financial resources to finance capital projects as needed. Debt affordability considers the University's ability to repay the annual debt service through its operating budget and identified revenue streams. These include both internal and

external factors. Before undertaking any new borrowing, the University will assess its broad institutional health, both at the current point in time and forward looking, to determine its ability to absorb additional fixed capital costs while maintaining its overall financial health.

The University will benchmark Key Financial Indicators to Moody's or higher education association groups, universities in its regional peer group, or other comparable private universities in the state of Illinois. The University evaluates its performance against these measures with a long-term view and will monitor the trend of the ratios over time. The University recognizes that financing a strategically important project may cause one or more of the financial ratios to perform poorly against the trend, median, or peer comparison in the short-term, but the University will take a longer-term view and evaluate the project accordingly. Based on changing market conditions, the University may opt to change the Key Financial Indicators to better monitor the financial health of the University. See indicators below.

### **Debt Management**

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The University views its temporary or permanent debt financing comprehensively, and will manage its debt level, debt composition, and risk profile from a portfolio standpoint.

In considering available financing structures and funding sources, the University will evaluate the benefits, risks, and costs of each financing structure and funding source, including the optimal way to access capital. The financing structure is reviewed within the context of the goals of this policy, and the University performs a financial and risk analysis to determine the impact of the proposed financing on select financial ratios.

The University may actively manage its debt portfolio to take advantage of current market conditions, either to generate savings, mitigate risk, take advantage of financing structures that would optimize its debt structure in the context of its goals, or for strategic purposes.

### **Risk Management**

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The University recognizes there is a correlation between risk and cost, and there are risks it may assume in order to optimize its debt portfolio. The University also recognizes its debt portfolio risks should be viewed holistically and in the context of its assets, liabilities, and operations.

The University evaluates the risks of its debt portfolio to inform decisions regarding the debt structure of the existing portfolio and that of potential new debt.

Risks in the debt portfolio can be broadly categorized as interest rate risk, liquidity risk, and counterparty risk. Interest rate risk impacts the budget and its ability to absorb volatility in interest expense. Liquidity risk impacts the balance sheet and its ability to absorb unexpected calls on liquidity. Counterparty risk represents the impact a counterparty (such as a

financial institution) may have on the University’s access to the capital markets and its impact on the interest rate and liquidity risk of the University. In addition, the University considers the risks associated with concentration of banking services, credit, and counterparty providers, in order to diversify its dependency risk to individual financial institutions.

The University recognizes the value and flexibility that short-term debt or variable rate financing may contribute to its debt portfolio. The University also recognizes that the cost alone should not drive debt portfolio management decisions, as the lowest cost alternative may expose the University to an unacceptable level of risk. While interest rate risks associated with variable rate debt can be mitigated through asset/liability management, liquidity risk and access to the market risk remain in certain financing structures.

### **Key Financial Indicators**

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The following table summarizes target levels and ranges for the primary key financial indicators, which are to be reviewed by the Board annually (as provided in the Moody’s Private College and University Financial Ratio Definitions report):

Measure	Moody’s Median for BBB Rated Institutions	Medium Term Target FYE 2020	Range
Debt Service Coverage (x)	2.72	1.25	1.25 to 2.75
Spendable Cash & Investments to Operating Expenses (Liquidity) (x)	.85	.6	.3 to .9
Expendable Resources to Debt (Viability) (x)	1.2	.4	.4 to 1.2
Total Debt to Cash Flow (Leverage) (x)	5	16-22	16-22

Explanations, plus additional metrics to be reviewed by the Finance Committee, include:

1. Debt Service Coverage Ratio: this ratio measures the University’s ability to cover debt service requirements with operating revenues and is a determinant of the strength of the operating income to meet its annual obligations. Defined as operating surplus (deficit) plus interest and depreciation divided by annual debt service, and should exceed 125%.
2. Spendable Cash and Investments to Operating Expenses: this Liquidity Ratio measures the availability of liquid and expendable net assets to operating expenses and is a determinant of the financial health of the University to meet its current obligations.

Unrestricted cash plus Unrestricted Investments in Category 1 or 2, divided by Operating Expenses.

3. Expendable Resources to Debt: this Viability Ratio measures the availability of liquid and expendable net assets to aggregate debt and is a determinant of medium- to long-term financial health based on the strength of its balance sheet. The viability ratio measures the availability of expendable net assets (unrestricted net assets + temporarily restricted net assets - plant equity) to cover debt should the University be required to repay its outstanding obligations. The University's viability ratio should move closer to a 1:1 ratio, or it will be difficult for the University to respond to adverse conditions from internal resources. It will also impact its ability to attract debt financing from external resources to fund capital initiatives
4. Total Debt to Cash Flow: This Leverage Ratio seeks to measure the University's debt capacity based on its ability to generate cash from operations to meet annual debt service requirements. The sum of all funded debt divided by Operating Cash Flow defined in 1. This metric not only keeps the focus on consistently producing operating cash surpluses to ensure timely debt repayment without depleting reserves, but should also restrain the University from over extending its debt capacity.

**Other important, but secondary measures of financial health:**

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1. Debt Service to Adjusted Operating Expenses: this ratio measures the percentage of operating expenses that support debt service and is a determinant of the University's operating flexibility to finance existing obligations and new initiatives. Adjusted operating expense is the total operating expense plus interest expense. The debt burden ratio measures the relative cost of debt to overall University expenditures (total expenses - depreciation + principal payments). By maintaining an appropriate proportion of debt service to total expenses, other critical and strategic needs can be met as part of the expense base. The ratio should be no greater than 7%. A level trend will provide an indication that there is sufficient coverage for debt service while not impeding financial resources to support institutional requirements. A rising trend will signify a demand on financial resources to cover the debt service which may result in budgetary reductions.
2. Days Cash on Hand: this ratio measures the number of days the University is able to operate (cover its cash operating expenses) from unrestricted cash and liquid investments and is a determinant of the flexibility the University maintains to finance existing obligations, unexpected funding needs, and new initiatives. Defined as annual liquidity times 365 divided by total expenses less depreciation and non-cash expenses, and should be <180 days.

3. Leverage Ratio = Available Net Assets/Long-Term Debt: The leverage ratio is the ratio of the University's net assets less permanently restricted net assets to its debt portfolio. The ratio measures the amount of leverage on the University's assets.

In addition to the Key Indicators above, the Department of Education's Composite Financial score will be reported and used to inform any debt decisions.

### **Reporting to Board**

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The Office of the Vice President for Finance will provide a quarterly update to the Finance Committee and will annually present a report to the Board of Trustees on debt issued, debt outstanding, the university's estimated debt capacity and credit ratings and ratios.

### **Review of Debt Policy**

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This Policy and any related procedures should be reviewed at least annually.

#### ***Entities Affected by this Policy***

All Divisions of the University.

#### ***Related Documents***

None.

#### ***Revision and Implementation***

The Board of Trustees (and/or, as authorized by the Board, the Vice President of Finance and Administration/Chief Financial Officer) shall have the authority to revise this Policy.

The Vice President of Finance and Administration/Chief Financial Officer shall have the authority to establish any procedures necessary to implement this Policy.